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A choice the West must be careful not to force on the people of the Middle East: leader

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Politics this week

Jun 21st 2007
From The Economist print edition

AP

Following the victory by the Islamists of Hamas over the forces of the secular Fatah party in the **Palestinians'** Gaza Strip, **Israel** and most Western countries said they would back a new Fatah-led government in the Palestinians' West Bank territory. See article

Meeting in Washington, Israel's prime minister, Ehud Olmert, and America's president, George Bush, said it was premature to reopen peace talks either with the Palestinians or with **Syria**. See article

At least 78 civilians died when a lorry driven by a suicide-bomber rammed a Shia mosque in Baghdad. Meanwhile the Americans sent some 10,000 troops on an offensive into the embattled province of Diyala, north of the **Iraqi** capital, to fight rebels linked to al-Qaeda. See article

In a special court for trying people for war crimes committed during **Sierra Leone's** civil war, three rebel leaders were found guilty of crimes against humanity and other violations of international law, including—for the first time in a court backed by the United Nations—the forced conscription of children under the age of 15.

A group of serving and retired soldiers went on trial in **Zimbabwe** accused of plotting to overthrow President Robert Mugabe's government. At the same time, in South Africa, Mr Mugabe's party representatives met those of the main Zimbabwean opposition movement to agree to an agenda for further discussion. See article

The fading regime

Vilma Espín, a former leading communist revolutionary, wife of acting president Raúl Castro, and one of **Cuba's** most politically powerful women, died after an undefined “long illness”. She was 77. For more than 45 years she served, in effect, as Cuba's first lady, even after the divorced Fidel Castro reportedly married Dalia Soto del Valle. See article

Alberto Fujimori, **Peru's** former president, said he would consider an offer from a small Japanese opposition party to run in July's Senate election. A citizen of both Peru and Japan, Mr Fujimori is under house arrest in Chile and faces extradition to Peru on human-rights and corruption charges. Peru's foreign minister decried Mr Fujimori's move as an attempt to avoid extradition and possible imprisonment.

A cruel summer ahead

Reuters

In a bloody week in **Afghanistan**, 35 people died in the suicide-bombing of a police bus in Kabul. The Taliban claimed responsibility. The next day seven children died in the east of the country in an air-strike by American-led coalition forces against a suspected al-Qaeda hideout. In the south, three NATO soldiers were killed by a roadside bomb. See article

Prosecutors in **Thailand** filed their first corruption charges against Thaksin Shinawatra, who was ousted as prime minister last year.

Ending weeks of delay and negotiation, America's Federal Reserve and a Russian bank arranged access for **North Korea** to funds that had been frozen in a bank in Macau. This removed an obstacle to implementing North Korea's agreement to shut down its

nuclear reactor at Yongbyon. The International Atomic Energy Agency confirmed its inspectors would be travelling to North Korea this month. See article

Kazakhstan's president, Nursultan Nazarbayev, dissolved parliament and called elections for August. The elections follow constitutional changes giving parliament more power, but also allowing Mr Nazarbayev to serve as many presidential terms as he wants.

Says he won't, but will he?

Michael Bloomberg, the mayor of New York, decided to leave the Republican Party and at the same time made an attack on partisanship in Washington. His actions heightened speculation that he would use some of his vast fortune to run as an independent presidential candidate next year. Mr Bloomberg said he was interested only in completing his term as mayor. See article

New York's state Assembly passed a bill in favour of **gay marriage**. Though largely symbolic (it's unlikely to get through the more conservative state Senate), supporters claimed it as a victory. Last week the Massachusetts legislature defeated a move to place an amendment on next year's ballot that would have overturned the status of same-sex nuptials; it is the only American state where gays can legally get married.

The White House announced that Rob Portman was stepping down as **budget director** for personal reasons. Jim Nussle, a former congressman from Iowa, was nominated as his successor and will take on the job amid a strenuous budget battle on Capitol Hill. See article

The fight over the use of **stem cells** continued. George Bush vetoed a second bill that loosens federal restrictions on stem-cell research; the Democrats said they would attach amendments to other pieces of legislation.

Constitutional pact

EPA

European Union leaders gathered for a summit in Brussels at which Angela Merkel, the German chancellor, who holds the rotating EU presidency, hopes to reach a deal on a slimmed-down treaty to replace the draft constitution that was rejected two years ago. A lengthy negotiation loomed as countries such as Britain and Poland set out negotiating “red lines”. See article

Nicolas Sarkozy's centre-right UMP party won a smaller majority in **France's** parliamentary election than had been expected. His environment minister, Alain Juppé, was defeated in Bordeaux and quit. In the ensuing reshuffle, the economy minister, Jean-Louis Borloo, took Mr Juppé's post and Christine Lagarde (top left, above) became France's first female finance minister. See article

After the French election, the leading couple of **France's Socialist Party** announced their separation. Ségolène Royal, who lost the presidential race to Mr Sarkozy, said she had asked François Hollande, the Socialists' boss, to move out. She also wants his job when he steps down. See article

Turkey's president vetoed a proposal for a popular vote for the presidency. Although things may change after Turkey's general election next month, his veto makes it less likely that the next president will be chosen by voters. See article

Britain upset the Muslim world by knighting **Salman Rushdie**, a novelist who published “The Satanic Verses” in 1988 and thereby incurred a *fatwa* from Iran. In Pakistan and other Muslim countries many Union flags were burnt. See article

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Business this week

Jun 21st 2007
From The Economist print edition

American shares and bonds wobbled as two hedge funds managed by **Bear Stearns** came close to collapse after suffering heavy losses in the subprime mortgage market. Other investment banks rushed to try and sell off their collateral in the funds. See article

In a big victory for Wall Street's **investment banks**, America's Supreme Court threw out an **antitrust** lawsuit that accused them of rigging technology share offerings in the late 1990s. In an emphatic 7-1 ruling, the court said that enforcement in this area was best left to experts at the Securities and Exchange Commission, not non-specialist juries. If the case had been upheld, the banks would have been exposed to triple damages under antitrust rules, totalling billions of dollars.

ING, a Dutch financial-services company, moved into Turkey's banking industry by agreeing to pay $2.7 billion for **Oyak Bank**, a subsidiary of the group that manages the pension fund for Turkey's armed forces.

Blackstone brought forward its eagerly awaited share offering by a few days. The firm has been behind some of the biggest recent private-equity deals, but has found itself under attack. Last week America's Senate introduced a bill that would increase taxes on private-equity groups that went public.

The flying palace

Amid the usual rivalry between Airbus and Boeing and the tallying of aircraft orders at the **Paris Air Show**, it emerged that an unnamed buyer had ordered an Airbus A380, the world's biggest passenger jet, for use as a private plane. The news angered environmentalists and came as Airbus executives were promoting the A380 as green-friendly, citing its fuel efficiency and lower carbon emissions per passenger. See article

The share price of Britain's **Imperial Chemical Industries** surged to an eight-year high after it received a £7.2 billion ($14.3 billion) takeover proposal from **Akzo Nobel**, a Dutch rival. ICI, formed in 1926 and once one of British industry's leading lights, has been considered a strong takeover target for some time. It rejected the offer, but with rumours going round of other interested parties, Akzo was expected to raise its bid. See article

A damaging strike at **Deutsche Telekom** ended when management and workers reached a compromise. The company's main union agreed to a pay cut of 6.5% (management had asked for more) and longer working hours. DT promised to delay job cuts.

A bitter taste

Cadbury Schweppes provided more details about its restructuring and announced 7,500 job cuts over the next few years. The world's biggest confectionery manufacturer is said to be close to finding a buyer for its American beverages division, which includes Dr Pepper among its brands.

Yahoo! said that Terry Semel was stepping down as chief executive and that Jerry Yang, one of the founders of the internet company, would take up the post. Mr Semel had faced criticism from investors for allowing Yahoo! to fall further behind Google in online advertising and for not capitalising on the fashion for “social networking” websites. See article

A federal appeals court upheld the patent on Plavix, one of the world's bestselling drugs, held by **Bristol-Myers Squibb** and **Sanofi-Aventis**. The American and French pharmaceutical companies, which are thought to be considering a merger, saw sales of their co-marketed drug suffer last summer when Apotex, which is based in Canada, introduced a generic rival. See article

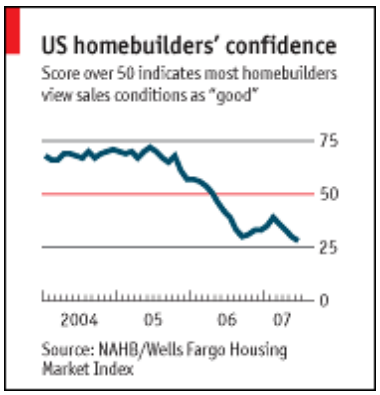
Italy's Luxottica, a maker of fashionable eyewear, including the **Ray-Ban** brand, agreed to buy **Oakley**, a Californian sunglasses manufacturer known for its sporty range, for a little over $2 billion.

The United Nations Environment Programme reported that investment in **renewable energy** leapt to $100 billion in 2006, higher than most previous forecasts had suggested. Most of the capital went to America and Europe, but China accounted for 9% of the total. The UN said the figures proved that renewables had shed their “fringe image”.

A division of Dubai's state holding company said it would buy the *Queen Elizabeth 2* for $100m, and refit it as a floating hotel and museum in the emirate. The world's most famous cruise liner, which has made over 800 Atlantic crossings since its launch in 1967, will sail into retirement in November 2008.

Sagging

Amid more worries about subprime mortgages and figures recording a sharp drop in home construction, America's National Association of Home Builders reported that **builders' confidence** in the market had declined to its lowest level since February 1991.



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KAL's cartoon

Jun 21st 2007
From The Economist print edition

Kevin Kallaugher

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The Arab world

Martyrs or traitors

Jun 21st 2007
From The Economist print edition

A choice the West must be careful not to force on the people of the Middle East

Get article background

THE Arab world has long been criss-crossed by feuds and rivalries. But if there is one point on which Arabs have agreed for more than half a century it is the justice of the Palestinian cause. Much as they may have loathed him in private, all Arab leaders had to show public respect for Yasser Arafat, the emblematic freedom fighter (and terrorist) who as leader of the Fatah movement personified the Palestinian struggle from the 1960s until his death three years ago.

That is why the scenes from Gaza have shocked Arabs far beyond Palestine. Arafat's portrait was torn off office walls and smashed under the boots of the Islamist fighters of Hamas. The Palestinian flag was hauled down and the green banner of Islam hoisted in its place. In one brutal week Hamas's swift destruction of Arafat's Fatah movement in Gaza summed up a change that is spreading across a broad swathe of the Middle East. Secular nationalism of the sort Fatah stood for is coming to look like the weak force and radical Islam like the strong force. This poses a huge danger to a region already beset by violent conflicts. What is worse, Western policy is in danger of strengthening the wrong side by making the Islamists look like martyrs and the secularists like traitors.

In Washington this week George Bush met Ehud Olmert, Israel's prime minister, to work out what to do after Hamas's seizure of power (see article). Their plan, which may be co-ordinated by Tony Blair when he steps down as Britain's prime minister, is to keep Hamas penned up in its Gaza enclave and to shower love, money and weapons on Palestine's president, Mahmoud Abbas, whose Fatah-dominated security forces are still more or less in control of the larger and more populous West Bank. The hope is that if Gaza fails under Hamas while the West Bank prospers under Fatah, Palestinian opinion will eventually swing back behind the moderates.

Can such a plan possibly work? There are reasons specific to Palestine that suggest it will not. But the first point to note is general. Any Arab leader who wins the label “moderate” and is showered as a result of this with American love and money is in danger of being called a traitor.

The most dangerous love

Egypt's president, Anwar Sadat, was called a traitor for making his courageous peace with Israel in 1979 (and assassinated by jihadists two years later). Arafat was called a traitor after shaking hands with an Israeli prime minister on the White House lawn. In Lebanon right now the Hizbullah movement calls the

beleaguered government of Fouad Siniora traitorous because it is propped up by France and America. Iraq's prime minister, Nuri al-Maliki, needs to keep his distance from America to fend off accusations that he is a puppet of the occupation. And, of course, the assumption of many Muslims that a pro-American leader must in some way be a traitor to the cause extends beyond the Arab world: in Pakistan and Afghanistan Presidents Musharraf and Karzai have constantly to face down the cry that by allying with the superpower they have sold out their countries—or, worse, their religion.

America's allies cannot stop the martyrs from calling them traitors. America has made itself deeply unpopular in the Islamic world by invading Iraq and standing by Israel. This is bound to taint any Muslim leader who looks as if he owes his position to American military or economic power. But guilt by association is only one half of the reason for the growing popularity of the martyrs and the spreading idea that America's allies must be traitors. The other half is that, by comparison with the traitors, the martyrs look clean.

When Arafat returned to Palestine from exile his honeymoon was brief. The returning hero created a regime of a kind all too familiar in the Arab world. It was riddled by corruption and ruled over by a sinister *mukhabarat*—the secret-police network that spies on and bullies the citizenry in most Arab states. By contrast, Hamas in Palestine, Hizbullah in Lebanon and the Muslim Brotherhood in Egypt and Jordan have earned a reputation for both honesty and efficiency. They often provide the poor with the health and social services that the state fails to deliver. When Hamas blew up Fatah's security headquarters last week, many Arabs silently cheered. All the more pity that Mr Bush has lately dropped his efforts to push Arab allies towards greater accountability and human rights.

The banker in the suit

The martyrs have another selling point. They are still “resisting”. During the Lebanon war last summer Hizbullah won millions of admirers for breaking the spell of Israeli invincibility. Hamas claimed credit for forcing Israel to evacuate its settlers and soldiers from the Gaza Strip two years ago. Salam Fayyad, the new Palestinian prime minister installed by Mr Abbas, is a decent man. But he is a former World Bank employee in a suit. The Hamas fighter with a bandanna and machinegun makes much better box office.

After Fatah's debacle in Gaza, Mr Bush and Mr Olmert see an opportunity to prove via a Hamas-free government in the West Bank that moderation pays. But it is not enough for Israel and America to release the economic help they withheld from the Palestinians when Hamas was still formally in charge. For the Palestinians' principal grievance is not economic. What they chiefly want is an end to Israel's occupation of the West Bank as well as Gaza so that they can enjoy an independent national existence in both places. And in this respect the West Bank is a tougher problem than Gaza, because it remains speckled by Israeli settlements and throttled by checkpoints.

What America must now prove is that its moderate Arab allies, far from being traitors, can actually deliver desirable results. In the case of Palestine, Mr Abbas and his new prime minister have to show not only that they can govern cleanly but also that they can get Israel to start dismantling outposts and leaving the West Bank. This, as it happens, is not something martyrs can do: Hamas's rockets just make the Israelis less willing to take risks. But to offer the moderates money and no visible progress towards statehood is to treat them with contempt—and to invite Arabs everywhere to do the same.

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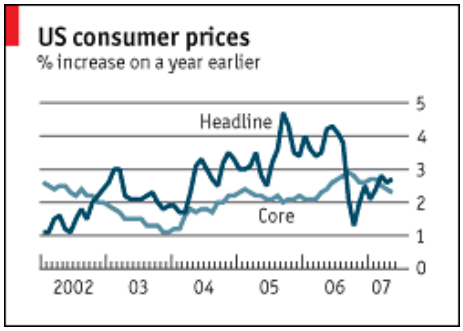
Inflation

Core principles

Jun 21st 2007
From The Economist print edition

Bond investors are living in a world where nobody eats or drives



DO THE financial markets believe that the typical American consumer is on a permanent fast, walks everywhere and survives without heating or air conditioning? After a jittery few weeks, bond markets rallied on June 15th on news that America's core consumer price index rose by just 0.1% in May. The data were warmly greeted by stockmarkets too. The Dow Jones index rose by 86 points on the day. Investors decided that the absence of price pressures would calm the nerves of rate-setters at the Federal Reserve, who have been worrying out loud about “elevated” core inflation.

What the markets blithely ignored was the day's bad news. Headline consumer prices rose by 0.7%, the biggest monthly increase for nearly two years. Unlike core inflation, the headline measure includes fuel costs, which rose sharply, as well as food prices. For bond prices to rise on such a big jump in inflation, markets must be placing a great deal of faith in the core index as the true gauge of price pressures. Is that wise?

The cold-and-hungry index

The lure of core inflation as a barometer is that headline inflation rates tend to be volatile. Last June the annual headline rate in America, pushed up by soaring oil prices, was as high as 4.3%, but by October it had plunged to 1.3%. The rationale for excluding food and fuel is to filter out prices that jump around for temporary reasons, such as the vagaries of the weather or the messy politics of the Middle East. A good core index excludes this noise, leaving only the enduring part of inflation that reflects the weight of spending in the economy.

Despite these statistical merits, there are several reasons not to rely blindly on core measures. First, the elements that the core index excludes are likely to pick up lasting shifts in inflation pressures earlier. Food and petrol are frequent purchases and their prices tend to be less “sticky” than those for more durable goods. Rising retail food prices can sometimes signal general price pressures. They are also a strong influence on perceptions of inflation, because consumers encounter them so frequently.

Second, the core and volatile elements of inflation are not entirely independent. Increases in food and energy costs can squeeze spending on other goods and services, depressing prices and artificially lowering core inflation. That is the reason why Mervyn King, the Bank of England's governor, referred in a speech earlier this month to the practice of excluding price categories as “highly misleading”.

Third, core measures tend to stress the disinflationary supply-side of globalisation, but play down the inflationary pressures on demand. The integration of China and India into the global economy has led to lower prices for manufactured goods, trimming core inflation rates. But there is a sting in the tail: rapid growth in emerging economies has pumped up global demand for primary resources and boosted commodity-price inflation—not just in oil but in food too (see article). When these pressures are sustained, as they have been, core measures will under-represent true inflation.

The truth is that no index is perfect (there is a long argument to be had about whether housing costs are properly measured in the core number as well). What matters most are what real consumers spend their money on—and how they react to the prices of those things. Core measures are certainly useful if they can efficiently strip out price changes that are likely to prove fleeting, without losing track of underlying inflation. But investors should remember that they are never all you need to know about inflation. Unless, of course, you live in a world without cars, air conditioners and cornflakes.

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Management in Europe

Pay slips

Jun 21st 2007
From The Economist print edition

How to defuse the politics of executive pay

Claudio Munoz

EUROPE'S managers are perfectly able to fight their own battles. But as parts of the continent embark on one of those periodic bouts of conflict over executive pay, managers are not the only people with something at stake. Bosses' pay matters because it helps determine who runs industry and helps direct how managers behave in the job. If regulators foolishly restrict pay, managers will certainly be the poorer for it. But investors and workers—the very people in whose name politicians and regulators act—stand to suffer too.

Passions are running uncharacteristically high in sober Switzerland. Thomas Minder, an outspoken chief executive, is waging a campaign against what he sees as excessive managers' pay awarded on easy terms and without the blessing of shareholders. Next door in France, as part of the recent presidential campaign, the victorious Nicolas Sarkozy pledged to carve out time in a hectic programme for laws to curb pay-offs to departing executives. Elsewhere, and particularly in Britain, the fight is over highly paid and lightly taxed private-equity partners. Already the shadow of a familiar chubby feline form is falling upon high-paid managers of all stripes.

The politics of executive pay are seldom edifying. Debate is cast in terms of a few extreme examples, without anyone knowing, or much caring, whether they are typical. In France, for instance, Mr Sarkozy's intervention was caused by the widespread fury at a €8.5m ($11.4m) pay-off to Noël Forgeard when he quit as joint chief executive of EADS amid a hopeless mess over Airbus's new aircraft (and a whiff of scandal about his having sold shares in the firm at an opportune moment).

Hard cases, bad law

Political action follows outrage as surely as the lawyer follows the ambulance. A host of ideas is now buzzing around (see article). Some would like to ban golden handshakes and golden parachutes. In those countries, such as Switzerland, without a shareholder say on pay, one idea is to have mandatory votes. Institutional investors would have to say how they voted, perhaps to keep the populist cauldron on the boil.

What of this makes sense? The simple purpose of pay—to attract and motivate employees—obscures the fact that it is all about circumstances. A venturesome biotech firm may wish to offer a low basic salary but a huge potential pay-out. The local electricity company will probably do better with a steady-as-she-goes package. (Look what happened when a utility called Enron started behaving like a start-up.)

That is a compelling reason to reject uniformity or blanket rules. Almost any pay practice is right in the right circumstances. Even golden hellos and golden parachutes have a place. Sometimes the new chief executive will leave his successful job to join you only if you “make good” his bonus at the old job and guarantee some pay. That may be unwise, if it reduces his incentive to take risks. Then again, it may be the only way to win his services. It all depends.

The danger of constrained and politicised pay is that you drive away talented executives. That is especially so in computing and biotechnology, where the market for international talent is most developed (and where Europe is struggling to catch up with the United States). So too in businesses that need a heavy dose of restructuring. A manager in a really successful private-equity deal might earn $50m-70m—though that will fall if, as seems likely, private-equity taxes rise in some countries. One consultant cites an executive in Norway who earned ten times as much in private equity as he had been getting in his hassled and scrutinised listed company.

In fact, private-equity partners—hardly a sentimental bunch—hold a lesson here, not because of how they are paid but how they pay. They believe that managerial talent is worth a lot of money and they are prepared to pay for it. If public companies cannot match that or reward executives for taking the appropriate risks, then quoted European businesses will suffer—and their investors and employees will suffer too. And if private equity does not steal the next generation of executives, there is always that berth at a hedge fund: even now a huge share of business-school graduates from all across Europe head straight for a job in the City of London.

Does that mean managers should be able to charge what they like? The secret to sensible pay is transparency and a shareholder vote, along with all the negotiation that surrounds it. Advisory votes are generally better than mandatory ones, because the aim is to get boards and shareholders talking, not waging war. Ideally, the debate over executive pay will shift from the purely moral plane to the pragmatic one, where it really belongs. Investors and workers want their companies to generate prosperity. Pay is a tool to help that happen. Governments should not blunt it.

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A counter-insurgency in trouble

Fatal errors in Afghanistan

Jun 21st 2007
From The Economist print edition

Too few soldiers and too much bombing from the air is damaging the American-led campaign

Getty Images

PERHAPS it is carelessness or perhaps it is just a spell of bad luck. Either way, the spate of Afghan civilian deaths caused by Western forces is as dangerous as the most callous of Taliban suicide-bombs.

Fighting an insurgency while building a working state from the ruins of Afghanistan was never going to be easy, particularly with a coalition of 37 countries including both battle-hardened Americans and battle-shy Germans. But the allies have hobbled themselves by creating two separate forces—both dominated and led by American generals—that at times work at cross-purposes. One is the International Security Assistance Force (ISAF), the NATO-led operation that does peacekeeping, stabilisation and, for some contingents in the south, counter-insurgency against the Taliban. A more obscure group, now called Combined Joint Task Force 82, consists of special forces and elite infantry who hunt Taliban and al-Qaeda leaders under America's Operation Enduring Freedom (OEF). The differences can be blurry. The two forces are supposed to co-ordinate their activity, and have some “dual-hatted” officers serving in both. Both groups have killed civilians, but many of the most controversial incidents—such as the death of seven children in an air strike on an alleged al-Qaeda safe house in Paktika province on June 17th—are the responsibility of OEF (see article).

How to undermine your friends

A joint effort last month led to the death of the Taliban military commander, Mullah Dadullah. But local ISAF commanders complain that, unbeknownst to them, OEF troops often operate in their areas and undermine their work. Whatever the truth of this, everybody suffers the consequences of mistakes, none more so than the government of President Hamid Karzai. Anti-Western riots have started to break out. The Afghan leader, who is protected by Western forces, complained in May that civilian deaths and arbitrary searches of people's homes had reached an unacceptable level. Despite abject apologies from the allies, the “mistakes” go on.

When confronted with a foe that hides among civilians, whether by consent or by intimidation, no amount of care will eliminate the death of innocents. But Western countries must do better, or risk losing support and moving the spotlight away from Taliban atrocities and war crimes.

Under America's new counter-insurgency doctrine, “unity of effort” is the essential prerequisite for success. Having two separate forces makes little military sense, but it was politically expedient. Many NATO countries, seeing their role as helping to rebuild Afghanistan rather than fighting the Taliban, do not want to be too closely associated with America's more aggressive tactics in the “global war on terror”. America, for its part, is reluctant to place its warriors too firmly under the control of wishy-washy

Europeans.

Neither side is wholly wrong. The Americans are right that the NATO mission would not survive without their muscle. Last year, when ISAF spread throughout Afghanistan and found itself in a war with the Taliban it had not expected, OEF came to its rescue. But the Europeans are right that the Taliban and al-Qaeda cannot be defeated only, or even mainly, by firepower. The two forces should be merged, but if that proves impossible, it should be made clear that ISAF has primacy, and should have oversight over OEF actions. More important, the aim of military operations should be to protect the civilian population and win its trust, not to kill as many insurgents as possible. Strikes against even “high-value targets” should be aborted if there is a serious risk of ordinary Afghans dying. Targets will re-appear; lost goodwill is harder to win back.

Unity of effort requires much more than rejigging command structures; it is about managing the complexity of nation-building. The problem is not just the strength of the Taliban, but also the weakness of the Afghan government, and disillusionment with corruption and slow reconstruction.

On top of this, Western and Afghan forces are too thinly stretched. Afghanistan is larger in size and population than Iraq, but has a fraction of the soldiers and police. Without enough forces on the ground, Western commanders have relied more heavily on bombing from the air, endangering more civilians. Reducing Afghan deaths will require, for some years to come, putting more Western soldiers in harm's way.

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British manufacturing

In praise of shopkeepers and sellers

Jun 21st 2007
From The Economist print edition

In the contrasting stories of Tesco and ICI, Britain offers a lesson to the world

NAPOLEON was wrong when he dismissed the British as a nation of shopkeepers (and hence unfit to defeat France in war). Compared with France, Britain in the 1790s already had a bigger manufacturing base, a higher income per head and hence a tax base wide enough to pay for 22 years of conflict that led to the emperor's Waterloo. Indeed, the demand for ships and munitions, created by the long war against France, boosted British industry.

Two centuries later, however, the little Corsican may have a point. This week ICI, the company that once symbolised British industry, became the target of a takeover bid from Akzo Nobel, a Dutch competitor. Meanwhile, Britain's Tesco supermarket group is boldly expanding into America and other foreign markets in a bid to overtake France's Carrefour (sorry, *Monsieur l'Empereur*) to become the world's second-biggest retailer behind Wal-Mart (see article). Britain has a much more open economy than America, measured by foreign trade or capital flows. Indeed, there could be no greater testimony to its health than the unsentimental ability to let one-time national champions float quietly off into another's embrace.

Imperial Chemical Industries was born on the liner *Aquitania* in the mid-Atlantic when four British chemical barons of the 1920s agreed to combine forces. But the company started coming apart in the 1990s. It balked at buying Glaxo to become a world-class drugs company. Funking as predator, it became prey itself. Prodded by the threat of a hostile break-up bid from Lord Hanson, a corporate raider at the height of his powers, ICI floated off its drugs division, now AstraZeneca.

As it moved upmarket, ICI became progressively less imperial, less chemical and less industrial. It paid too much for Unilever's specialty chemicals business and struggled to pay down the debt it incurred by selling its commodity petrochemicals operations at just the wrong point in the cycle. Its giant petrochemicals complex on Teesside—once the very symbol of British manufacturing strength—was sold to some Americans and now belongs to a Saudi company.

Such sell-offs go almost without comment now in Britain. When investors from Dubai snapped up P&O, another commercial relic of the British empire, Britons shrugged, even as nationalistic opposition in America forced the Arab buyers to find someone more trustworthy to take on the ports it owned there. German and French firms have snapped up British water and electricity companies, and London's airports belong to a Spanish construction company. First the Dutch, then the Indians walked off with Britain's steel industry. The Chinese bought Rover, the rump of Britain's car industry, and shipped its machine tools back home. It may only be a matter of time before BT (conveniently, no longer called British Telecom) becomes the first “national” telecoms incumbent in foreign hands; its mobile arm has already been taken by Spain's Telefónica. Likewise BAE Systems (no longer British Aerospace) sees its future in America, perhaps in the belly of a beast named Boeing, Northrop Grumman or Lockheed Martin.

A nation of industrial antiques dealers

In most countries that would count as a litany of failure. But just as Britain led the world into industrialisation, so now Britain is leading it out. Today you can still find a few British engineers and scientists making jet engines and pharmaceuticals—and doing rather well at it. But many more are cooking up algorithms for hedge funds and investment banks—where in many cases they add more value. The economy has boomed these past 15 years, as manufacturing has been left behind and London has become the world's leading international financial centre. Britain's deficit in manufactured goods is

hitting record highs. But so are the capital inflows.

All those foreign investors have brought a lot, too. Nissan's car factory in Sunderland, for instance, is one of its finest anywhere. If foreigners think they can manage British factories or finances better than the natives can, they are welcome.

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On American health care, Sri Lanka, recycling, Tony Blair, legacies, Russia, the six-day war, think-tanks, robots, British hypochondria

Jun 21st 2007
From The Economist print edition

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A mixed market

SIR – I was puzzled by your characterisation of America's health-care system as "predominantly private" ("Cautious competition", June 2nd). As of 2004 only 55% of America's health spending was private; the other 45% came from a variety of federal and state programmes. In addition, this 45% does not capture the so-called "Cadillac effect" that comes from the American Medical Association's guild-like stranglehold on providing medical services, the distortion from the tax treatment of certain health and insurance expenses, and many other unseen costs of government regulation and subsidies.

America's health-care system is broken, inefficient, exclusionary and unnecessarily expensive; that much is certain. But it is ironic that (almost) all of America's presidential candidates think that they can fix health care by increasing both spending and regulation in a system that has already been damaged by the unintended consequences of government intervention.

Nikolai Wenzel
Assistant professor of economics
Hillsdale College
Hillsdale, Michigan

Powers of persuasion

SIR – Your analysis of the situation in Sri Lanka is correct: nothing short of a unified province in the north-east with real devolution of power to the Tamils will end the long-standing conflict ("A war strange as fiction", June 9th). The rebel Tamil Tigers were willing to countenance a "federal" outcome during the peace process. Now, sufficient economic and diplomatic pressure should be put on the Sri Lankan government to seek such a solution. I am not talking about half-hearted attempts, such as the British government suspending debt relief to Sri Lanka citing human-rights concerns while at the same time providing military aid, but a comprehensive military and economic freeze on the Sri Lankan government until it ceases its military offensives. Anything short of this will signal to the Tamils that their cause is better served by the Tigers.

Prajeev Rasiah
London

Salvage operation

SIR – I applaud your call for people to recycle more, but the campaign should also target the packaging industry ("The price of virtue", June 9th). For example, in order to reduce the use of green glass for wine bottles, everyday wine (not the good stuff) could be packaged in boxes, which are cheaper and more convenient to transport. People should also be encouraged to drink tap water, which is often superior in quality to bottled water, to cut down on the use of plastic water bottles.

Rev Caroline Gordon-Walker
St Germain de Belvès, France

Evaluating Tony Blair

SIR – Tony Blair is right to insist on social justice ("What I've learned", June 2nd). But by committing

Britain to join George Bush and the neoconservatives in their disastrous military crusade against Iraq, while at the same time denying the Palestinian people even elementary justice, Mr Blair is doomed to failure.

As for “freedom”, it certainly eludes the dead and displaced and remains a utopian dream to the victims of the bloody civil war unleashed by the invasion on the Iraqi people. All of this justified by the removal from power of Saddam Hussein, a scoundrel and America's former ally against Iran. “Get real” indeed.

Jon Baldvin Hannibalsson
Iceland's minister for foreign affairs, 1988-95
Reykjavik

SIR – With regard to terrorism Mr Blair states: “There is no alternative to fighting this menace wherever it rears its head. There are no demands that are remotely negotiable. It has to be beaten. Period.” Yet if Mr Blair's peace deal in Northern Ireland wasn't a negotiated settlement with former terrorists, I don't know what is. Moreover, in the moralistic push against repressive regimes everywhere, where does North Korea fit in? It does not even get a mention in Mr Blair's essay, yet it is hard to think of a more deserving case for the West's attention.

Gavin Maitland
Denver

SIR – It is Mr Blair who still does not get it. He is right to be concerned that terrorism could destabilise Western societies, but he does not pause to reflect on the harm done to the Arab and Muslim world, and the Third World in general, by policies that had no regard for those societies in their support of a string of brutal pro-Western dictators.

Mr Blair writes about the “perversion” of Islam when he cares not a jot for Islamic values. Islam has become a vehicle to empower the masses only because they are filled with anger at their mistreatment by the West and by the hypocrisy of its “humanitarian” interventionism, most notably the double standard that is applied to Israel. Tony Blair declares that “We must stand up for our values.” The Third World looks on and retorts: “What values?”

Raif Hijab
San Mateo, California

SIR – Mr Blair talked at length about key values such as freedom, democracy, responsibility to others, justice and fairness and how these values should be the cornerstone of foreign policy. As abstract as they might sound, for the people of Kosovo and many around the world they do have a meaning. These values were put to the test in the Balkans and it was Mr Blair's determination to end ethnic cleansing that made them real. He is a hero and a true visionary of a free world.

Liridon Latifi
Pristina

SIR – In his defence of global values Mr Blair asks, “Whoever voted to get rid of democracy? Or preferred secret police to freedom of speech?” The answer is: quite a few. For example, anyone who voted for Napoleon III in 1848, the Bolsheviks in 1917, Hitler in 1933, South Africa's racists in 1948, Robert Mugabe, Mahmoud Ahmadinejad, etc.

Iain Crawford
Monmouth, Gwent

SIR – May I suggest “What Blair's not learned”, courtesy of Machiavelli's “The Prince”. First, “no matter how powerful one's armies, in order to enter a country one needs the goodwill of the inhabitants.” Second, “there is nothing more difficult to handle, more doubtful of success, and more dangerous to carry through than initiating changes in a state's constitution.” And finally, “A prince should never join in an aggressive alliance with someone more powerful than himself.”

Herbert Okun
New York

Political legacies

SIR– Like many others, Lexington quoted Enoch Powell as famously saying “all political lives end in failure because that is the nature of politics and of human affairs” (June 2nd). And like many others, Lexington has not got the quote exactly right. In his biography of Joseph Chamberlain, Powell wrote that “all political lives, unless they are cut off in midstream at a happy juncture, end in failure...” Lexington forgot Powell's all-important caveat.

Jairam Ramesh
Minister of state for commerce
Government of India
Delhi

Refuseniks

SIR – You have got the wrong end of the stick if you think that Vladimir Putin feels he has been “pushed” into a corner by British requests to extradite Andrei Lugovoi, who is suspected of murdering former Russian agent Alexander Litvinenko in London last year (“Vlad and MAD”, June 9th). Actually, a more confident Russian government is looking for excuses to justify aggressive foreign policies, and to try to project its influence abroad. Litvinenko's elimination was undoubtedly organised with a full understanding of the likely consequences, and constitutes a blatant return to cold-war assassination tactics. The Russian president's refusal to extradite Mr Lugovoi was a foregone conclusion.

Andrew Ryder
Department of geography
University of Portsmouth
Portsmouth

What may have been

SIR – Your analysis of the legacy of the six-day war that took place in June 1967 (“Forty years on”, May 26th) begs a tantalising question: if Israel had not launched its first strike, would there be peace in the Middle East today? You refer to Michael Oren, an Israeli historian whose seminal work on the conflict showed that no one and nothing was likely to persuade Gamal Abdel Nasser, Egypt's president, to reopen the Straits of Tiran, which most historians agree made war inevitable. No serious historian has ever suggested that Nasser could have been persuaded otherwise; the United Nations secretary-general at the time, U Thant, certainly proved incapable of cooling things down.

Mr Oren's book also makes it clear that the Soviet Union was unlikely to help. In fact, Moscow was the nasty catalyst of war, first feeding blatantly false reports of an Israeli build-up to Syria and Egypt, then refusing Israel's pleas to the Soviet ambassador to visit the front-lines to see for himself that there was no planned offensive.

So would there be peace in the Middle East had the six-day war never happened? Would Egypt and Jordan have fostered an independent Palestinian state on the West Bank and Gaza Strip, land that they controlled at the time? Would the Palestinians themselves have come to accept such a state as anything other than a half-way point in their national quest? Would the Muslim world have reconciled itself to a Jewish state? If your answer is “yes” to any of these questions, ask yourself what part of modern Middle East history makes you think so?

Mel Laytner
New York

SIR – You describe Israel's victory as “Pyrrhic” (“Israel's wasted victory”, May 26th). But Pyrrhus was famous for the cost of his victory, not what ensued. Surely a better analogy would be with Hannibal, who, as the Romans said, knew how to gain a victory but not how to use it.

Henry Rogers
Bedford, Bedfordshire

SIR – The case you made for the currently accepted wisdom that we must move ahead firmly to the two-state solution, and figure out the details later, sounds compelling. But this “solution” is a fantasy and will

leave a sour taste in both Israeli and Palestinian mouths. Regardless of right or wrong, both will feel that they are giving up something that they have a right to. After some initial backslapping, mostly by the international community, frustrations will re-emerge on both sides.

The only solution that stands a chance in the long term is the little talked about single-state solution, based on equal democratic rights for all citizens, regardless of origin and religion. It is only this way that the conflicting rights that both nations say they have for the same land can be accommodated. As with a two-state solution, the road will be difficult and contentious, but a surprisingly large number of both populations would be willing to accept this as the only sustainable resolution to the conflict.

Iyas Al-Qasem
London

Lack of policy

SIR – Charlemagne provided some useful insights by comparing European think-tanks with their American counterparts, but he failed to recognise an important motivating factor in the industry: elections (June 9th). As he correctly explained, the revolving nexus of government, industry and think-tank inside Washington's Beltway helps explain America's vibrant policy discussion. Think-tank debaters are always trying to find “the next big idea” that will reach out to a wider constituency. Because of the administrative turnover that follows an election, some think-tankers lose their jobs and others get new ones. These “deliver or die” incentives are built into the demand for and supply of policymaking intellectuals.

Contrary to that dynamic scenario, Europe's executive, the European Commission, is not elected and there is little turnover of Eurocrats. The elected European Parliament negotiates Europe-wide policies among 27 member states. National politicians are elected, but they and their constituencies are more preoccupied with domestic and local issues. Are there any American think-tanks of note that only discuss issues that are important to Connecticut, or Louisiana? Think-tanks in Europe lack the motivation that comes from competing in elections and stirs debate.

Yuki Shirato
Tokyo

SIR – Charlemagne is rightly critical of the relatively passive role of Brussels think-tanks. In my view, there are four principal reasons for this. First, think-tank and business leaders in Washington interact within a single “class”, whereas they form three permanently separate groups in Europe. Second, European Union decision-makers do not seem to value think-tank input to the degree that it is valued in America. Third, European think-tanks are more reticent than their American counterparts in seeking to influence decision-making.

And the final reason is that private-sector financial support for think-tanks is very limited compared with the United States. The insufficient role played by think-tanks is one of the reasons why there is so little strategic thinking in Brussels.

Stanley Crossick
Founding chairman
European Policy Centre
Brussels

The iron man

SIR – It is not the case that “nobody mourns a robot” (“Robot wars”, June 9th). In a recently reported military experiment in Arizona, the supervising colonel witnessed a robot getting blown to pieces clearing landmines and then called off the exercise claiming it was “inhumane”. Please don't underestimate the range of human pathos, especially in the context of creating robots with a conscience.

Tim Carr
San Diego

Headline news

SIR – Thanks to Bagehot for his musings about the British tendency towards “hypochondria” (June 9th). However, the British media must accept a large part of the blame for this focus on negativity. Bad news dominates the front page; good news gets only the occasional footnote. You seldom read the headline: “Church fair a great success. Vicar congratulated”. But a whole page is often devoted to “Vicar chases lady mayoress at church fair. Home-made elderberry wine to blame”.

Dennis Saunders
Farnham, Surrey

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The Palestinians

June amazed them

Jun 21st 2007 | GAZA AND RAMALLAH
From The Economist print edition

AFP

From now on, the Palestinians are not themselves

Get article background

IT IS a sullen parade of short, bitter stanzas, equal parts sadness, bewilderment, shame and rage. In a poem that Palestinians have been posting on blogs, circulating by e-mail and handing out in offices, Mahmoud Darwish, their unofficial poet laureate, lashes out at the internecine fighting that culminated, during one blood-soaked week, in what some fear could be a fatal schism in their putative state. Gaza, where the Islamists of Hamas now hold sway, and the West Bank, where secular Fatah retains control, have been driven asunder almost exactly 40 years after Israel occupied them. Mr Darwish laments:

> June amazed us on its fortieth anniversary: if we do not find someone to defeat us again, we defeat ourselves with our own hands so as not to forget!

Many see an opportunity in the debacle. Fatah thinks it could recover from its defeat at Hamas's hands in elections 18 months ago. America and Israel, as well as some Arab leaders, see a chance to isolate Hamas, which refuses to contemplate a permanent peace with Israel. Foreign donors, who spent vast sums on handouts for ordinary Palestinians while boycotting the Palestinian Authority (PA) itself, can go back to giving the PA less costly but more productive development and budget aid, now that Fatah's Mahmoud Abbas, the Palestinian president, has dismissed the Hamas-led government and appointed a largely technocratic cabinet.

But a lot of Palestinians wonder if this is the death-knell of their dream of statehood. The foreigners' optimistic scenario—that Hamas will cave in and give up control of Gaza—is far from guaranteed. Permanent separation between a chaotic, violent Gaza Strip and a more prosperous West Bank seems a real possibility. The title of Mr Darwish's poem sounds an almost biblical warning: “From now on you are not yourself!”

Hamas's takeover surprised everyone, but it was the outcome of a contest stretching back to Hamas's foundation in 1987, from a Palestinian offshoot of Egypt's Muslim Brotherhood. When Fatah's Yasser Arafat signed the 1993 Oslo peace deal with Israel, Hamas called him a sell-out; then, as the PA under his rule grew corrupt and ineffectual, Hamas filled the gaps with social programmes and held up its *mani pulite* to Arafat's graft. It also pioneered terrorist tactics that Fatah later copied.

In sporadic attempts to keep his promises on security to Israel during the 1990s, Arafat ordered vicious crackdowns on Hamas. That left it with a long-standing hatred of Muhammad Dahlan, Arafat's enforcer in Gaza, whose men arrested thousands of Hamas militants and tortured and killed several.

The stranger and I against my cousin

Not until last year did the Islamists feel ready to challenge Fatah in parliamentary elections. It meant, after all, tacitly accepting the Oslo accords, which had created the PA. But Fatah was by then in such a mess that it could not even unify its lists of candidates. Using its network of cells as a grassroots campaign organisation, Hamas won nearly twice as many seats as Fatah (though a small majority of votes).

Fatah, however, never fully relinquished control. On the eve of the new parliament's swearing-in, Mr Abbas brought some of the PA's dozen-odd security forces under his own command by decree. Other forces, notionally under the new Hamas government's orders, stayed largely loyal to their Fatah commanders.

Its power curtailed, Hamas created its own force in Gaza. America, which before Hamas's election had been helping reform the PA forces as a whole, switched to beefing up Mr Abbas's presidential guard. Hamas-Fatah clashes, exacerbated by feuds between Gaza's powerful clans, grew more frequent. Attacks by militants on Gaza's border crossings prompted frequent closures of these trade lifelines by Israel, tightening the economic chokehold imposed by the West's embargo of the PA. When the militants raided Israel and kidnapped a soldier, Israel launched an offensive that killed some 400 Gazans.

After some arm-twisting from Saudi Arabia, Fatah and Hamas at last formed a unity government at a meeting in Mecca in February. But they could not agree on who would control the security forces. Mr Abbas made Mr Dahlan, Hamas's nemesis, secretary of a new national security council. The unity agreement began to unravel. Last month Fatah forces were suddenly deployed on the streets of Gaza; Hamas forces responded; the clashes killed 40 people before they subsided. When another spark lit the tinderbox this month, it was all over—though not before another hundred had died.

Why did Hamas go for broke this time? And why was its victory so quick and total? Mouin Rabbani, a Jordan-based analyst with the International Crisis Group, a lobby in Brussels, thinks the combination of economic boycott, domestic discontent, criticism from radical groups abroad, the growing threat from Fatah and splits within Hamas itself meant that people who used to think time was on their side began to think it was working against them.

Fatah, meanwhile, seemed unprepared. Some of its top people in Gaza were away, Mr Dahlan among them. Mr Abbas, sitting in the West Bank, did not declare a state of emergency until Hamas militants were ransacking his Gaza home. Mid-level Fatah officers complained bitterly about lack of leadership. “We had orders not to fire except in self-defence,” says one, whom Israel allowed to flee to the West Bank. Now he sits in the lobby of Ramallah's smartest hotel, nervously smoking with his fellow fugitives and endlessly repeating stories of Hamas's brutality.

Indeed, some Fatah officers suspect their leaders' apathy was deliberate. Letting Hamas win Gaza has a certain logic to Fatah. No sooner had Mr Abbas sworn in a new government under Salam Fayyad, a former World Bank official well-liked in the West, than America, the European Union and Canada lifted their 15-month-old boycott, and Israel said it would consider releasing frozen PA tax revenues, removing some of the internal checkpoints that stifle the West Bank's economy, and holding more meaningful talks with Mr Abbas. Thus, runs the theory, Mr Abbas will reap the praise for a better life in the West Bank, while Gazans' well-being will be at the mercy of a now-isolated Hamas.

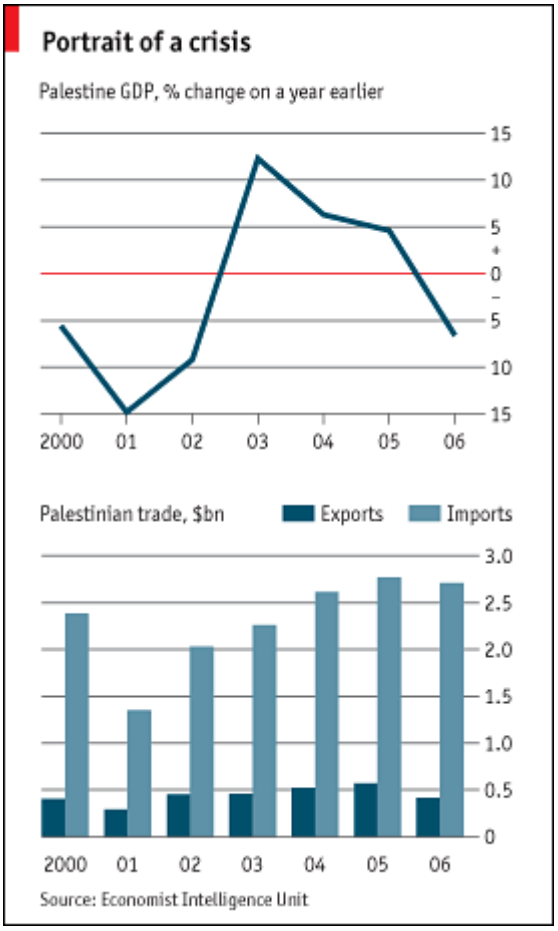
So it was all planned, was it? Qaddoura Fares, one of Fatah's younger leaders in Ramallah, lets out a short, dry laugh. “If only!” More likely, agrees Diana Buttu, a former adviser to Mr Abbas, the famously diffident Palestinian president wanted to avoid a showdown, and simply did not expect Hamas to go so far.

My cousin and I against my brother

Another popular theory is that Hamas wanted to settle scores with Mr Dahlan personally, more than with Fatah as a whole. Certainly, there has been some score-settling within Fatah itself. Some members want Mr Dahlan to stand trial. From his Israeli jail cell, Marwan Barghouti, Fatah's most popular young leader, put out a veiled but unmistakable call for his chief rival to be stripped of power. Fatah's secretary-general in Gaza, Ahmed Hallis, who harbours barely disguised contempt for Mr Dahlan, did not flee, lending credence to the view that the battle with Hamas was partly personal. But making Mr Dahlan a scapegoat would give Hamas an easy way out of the stand-off, and Fatah has decided not to give it one. “This was a

military coup," insists Mr Fares, who is close to Mr Barghouti. "On this issue, at least, Fatah is united."

Both sides are now taking stock. In the West Bank, where Hamas is much weaker than in Gaza, Fatah leaders have tried to stop their fighters from taking revenge and spreading the conflict. They have largely succeeded, though one Hamas man there has been killed and most are in hiding. Mr Abbas has outlawed Hamas's militias (a largely empty gesture for now). Fatah people are relatively optimistic: they think Hamas has damaged its credibility at home, given political Islam a bad name abroad, and will be unable to provide any basic services for Gazans.



Hamas is talking tough; Ismail Haniyeh, the prime minister, has refused to recognise Mr Abbas's authority to dissolve the government (one of the few things the ill-drafted basic law, the fledgling constitution, in fact allows him to do). But in reality it is running scared. The Islamists have been making increasingly frantic promises to free Alan Johnston, a BBC journalist allegedly held by a Gazan criminal gang (whom they accuse Mr Dahlan of backing too). And their own disagreements are growing more evident.

Hamas's supreme leader based in Damascus, Khaled Meshal, quickly contradicted Mr Haniyeh by acknowledging Mr Abbas's authority, and others in Gaza have called for talks with Fatah. But in a fiery television speech the normally mild Mr Abbas seemed to rule this out. He called Hamas "murderous terrorists" who had staged a coup and tried to assassinate him. He said he would refuse to talk to the organisation, whose takeover of Gaza had been agreed with "foreign elements" (he may have meant Iran) in the region.

So now the brinkmanship begins. According to the basic law, Mr Fayyad's overworked government—most of its ministers have two or three portfolios—has at most 30 days in power, since the Hamas-dominated parliament will never ratify it. Elections are not for another two-and-a-half years; nobody can dissolve parliament and call new ones except parliament itself. It is possible, however, that Mr Abbas could legally keep appointing governments every few weeks, perhaps rotating the prime minister each time, in the hope that Hamas will crack and agree to an election or some other compromise.

Will it? Hamas controls nothing in Gaza besides the streets; the PA bureaucracy there, and its purse-strings, are in Mr Fayyad's hands. Yet Mashhour Abukada, the blunt-spoken telecoms expert who has just been made transport minister ("not to my liking, I must admit"), doubts whether Mr Fayyad will take part

in enforcing any isolation of Gaza: “We will co-operate even with Hamas in that task.” Nor will Mr Abbas want to be seen punishing 1.4m of his own citizens living in Gaza.

Meanwhile, Gaza under Hamas forces' sole control is likely to be safer and more orderly. If Hamas can also crack down on renegades who have been kidnapping people and attacking the border crossings—and if that prompts Israel to open the crossings more often—it will have a good case for retaining influence.

So this could drag on. And the longer it does, the less legitimate Mr Abbas's constitutional balancing act will look. Hamas may be quiescent in the West Bank now, but some of its militants there have given ominous interviews warning that they have lots of men and lots of guns.

And when election day dawns at last, Hamas will still be there. Many Palestinians feel that for all its faults, it was robbed of the chance to govern properly. Fatah, to become electable again, needs to end its infighting and corruption. “If we continue with these policies,” acknowledges Mr Fares, “we may also lose the West Bank.” But the party has been promising in vain to reform since its electoral defeat last year. Indeed, with Hamas boxed in, Fatah's incentive to clean itself up will be weaker, while its incentive to use force against Hamas in the West Bank (now, no doubt, with tacit approval from other countries) may well grow.

AP

Darwish up against the Palestinian wall

All of which raises a frightening prospect: Hamas defiantly holds on in Gaza, shorn of powers and responsibilities; Fatah repeats its old mistakes in the West Bank, seeding new support for Hamas or, worse, radical jihadist groups of the kind Palestine has mostly been free of so far. Life in Gaza, with renewed PA funds, less violence and continued humanitarian aid, will get no worse and may even improve, as long as attacks from Gaza do not provoke Israel into launching another offensive. Meanwhile, Hamas in the West Bank could sabotage Mr Abbas's plans to create a prosperous rump state by keeping up a low-level stream of attacks on Israel or its settlers; Israel would then refuse to ease restrictions on West Bankers' movements. Each player in this conflict knows all too well which levers to pull.

Mr Darwish, in his poem, portrayed the Palestinians' perverse self-destruction by distorting a favourite Arab proverb, “I against my brother, my brother and I against my cousin, my cousin and I against the world” (the results are the sub-headings in this article). But another stanza sums up the Palestinian quandary:

> O future: do not ask us: who are you?
> And what do you want from me?
> For we too do not know.

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Reactions in the region

Emotions not politics

Jun 21st 2007 | CAIRO AND JERUSALEM
From The Economist print edition

The Palestinians' chances of avoiding the worst depend partly on others

AMERICA has always pinned its hopes on strengthening Mahmoud Abbas, Palestine's president, enough to oust Hamas (unlike many European countries, which hoped the boycott of the Palestinian Authority would make Hamas more moderate). Before the showdown in Gaza, America was hoping Mr Abbas could somehow hold early elections. Now its leaders are repeating at every opportunity Fatah's line that Hamas started the violence. An American official says his country is now choosing which of its aid programmes to restart first, the criterion being that “we want to have an impact quickly”. But, he concedes, it is hard to see an election soon, while Mr Abbas's power to prolong the emergency government is something that “has to be worked out”.

Israeli officials, too, want to bolster Mr Abbas at Hamas's expense. But Israel's instinct will be to make concessions only if Mr Abbas delivers in terms of security and stability, and his ability to deliver will in turn depend on Israeli concessions—the old vicious circle. “They think there'll be a paradise now because tax revenues will come back, but we'll only go back to the situation in 2005,” sighs Mustafa Barghouti, a liberal Palestinian politician who ran against Mr Abbas for the presidency.

The Palestinians' Arab neighbours, meanwhile, are in a quandary. Jordan, Egypt and Saudi Arabia were lukewarm allies in the American-led campaign to squeeze Hamas, though they quietly wished for Hamas's demise, for fear that its success would inspire Muslim Brotherhood movements in their own countries. Egypt's President Hosni Mubarak is reported to be planning a summit with Mr Abbas and Israeli and Jordanian leaders.

Jordan and Egypt worry that, if the Gaza-West Bank split persists, Israel will eventually try to dump responsibility for the sundered halves of Palestine on them. Israelis are discussing a long-dormant dream that Jordan, whose population is two-thirds Palestinian, will re-absorb the West Bank—convenient for Israel, but possibly lethal for the Hashemite kingdom. And Egypt, which pulled its mediators out of Gaza in despair and fear, has come out looking particularly bad, since Hamas originally armed itself thanks to criminal gangs smuggling weapons from Egypt.

So the official Arab response to the Palestinian drama has been muted. At a hastily called Arab League meeting, envoys from the 22 states merely proclaimed support for Palestinian unity and formed a fact-finding committee. And while most Arab countries announced their backing for Mr Abbas's new Hamas-free government, even diplomats who blasted Hamas for sabotaging prospects for peace voiced disquiet over punishing Gaza too harshly. Only the Saudis, sore at seeing their hard work in Mecca gone to waste, urged both sides to get back to the negotiating table.

Understandably, many Islamists were cheered by Hamas's takeover of Gaza. Yet they also worry that its victory, accompanied as it was by widely watched violence, could damage their public support and make other Arab governments more determined to crack down on local Islamist movements. The Muslim Brotherhood has notably refrained from public comment, except to decry the violence.

Cheers might have been expected from Syria, too. Bashar Assad's regime plays host to Hamas's exiled leadership, is at odds with Fatah, and presents itself as a bastion of resistance to Israel and America. It may be pleased that its allies have burned America's fingers again. Yet Syria is a staunchly secular country, where membership in the Muslim Brotherhood carries a long jail sentence. Its silence reflects fears either that it, too, might be swept away by an Islamist coup, or that Palestinian infighting will diminish Israel's incentive to sue for peace with Syria.

Hamas's challenge may ultimately affect other Arabs emotionally more than politically. The Palestinian issue is the decades-old touchstone of Arab nationalism. Its abrupt reframing from a heroic struggle against a cruel occupier into a vicious, self-destructive internal scrap exposes the schisms that other

Arabs share with the Palestinians—between inept authoritarian rulers and restless subjects, between national and religious markers of identity. The symbolic power of the imagery from Gaza, including Hamas's demolition of the old secret-police headquarters, and the raising of Islamic banners in place of the Palestinian national flag, could be a harbinger of similar struggles elsewhere.

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Environmental policy (1)

Arnie's uphill climb

Jun 21st 2007 | LOS ANGELES
From The Economist print edition

Kevin Kallaugher

California's confident approach to climate change has inspired America and the world. But things do not look so good in the state itself

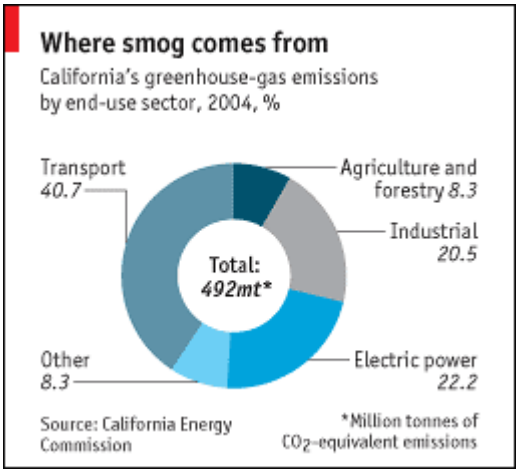
IN MOST parts of the world, climate change is a worrying subject. Not so in California. At a recent gathering of green luminaries—in a film star's house, naturally, for that is how seriousness is often established in Los Angeles—the dominant note was self-satisfaction at what the state has already achieved. And perhaps nobody is more smug than Arnold Schwarzenegger. Unlike Al Gore, a presidential candidate turned prophet of environmental doom, California's governor sounds cheerful when talking about climate change. As well he might: it has made his political career.

Although California has long been an environmentally-conscious state, until recently greens were concerned above all with smog and redwood trees. “Coast of Dreams”, Kevin Starr's authoritative history of contemporary California, published in 2004, does not mention climate change. In that year, though, the newly-elected Mr Schwarzenegger made his first tentative call for western states to seek alternatives to fossil fuels. Gradually he noticed that his efforts to tackle climate change met with less resistance, and more acclaim, than just about all his other policies. These days it can seem as though he works on nothing else.

Mr Schwarzenegger's transformation from screen warrior to eco-warrior was completed last year when he signed a bill imposing legally-enforceable limits on greenhouse-gas emissions—a first for America. The bill, which is just 13 pages long, obliges California to cut its emissions to 1990 levels by 2020. That alone is ambitious, considering that the state's population is expected to increase by 42% in the period. But Mr Schwarzenegger has set up two other targets. He wants the state to reduce greenhouse-gas emissions to 2000 levels by 2010, and to slash them to 80% below 1990 levels by 2050.

Thanks mostly to its lack of coal and heavy industry, California is a relatively clean state. If it were a country it would be the world's eighth-biggest economy, but only its 16th-biggest polluter. Its big problem is transport—meaning, mostly, cars and trucks, which account for more than 40% of its greenhouse-gas emissions (see chart) compared with 32% in America as a whole. The state wants to ratchet down emissions limits on new vehicles, beginning in 2009. Mr Schwarzenegger has also ordered that, by 2020, vehicle fuel must produce 10% less carbon: in the production as well as the burning, so a simple switch to corn-based ethanol is probably out.

Californians of the future will also be expected to use cleaner electricity. The state subsidises solar power, with the intention of creating a million power-generating roofs within ten years. It has, in effect, banned electricity companies from signing long-term contracts with coal-fired power stations, and plans to buy from cleaner sources. In 2002 Gray Davis, then the Democratic governor, signed a bill that committed the state to obtaining a fifth of its power from renewable sources, not including nuclear or large hydro-electric power stations, by 2017. Last year, in a typically cocky gesture, the deadline was brought forward to 2010.



Mr Schwarzenegger now jets around the United States and Canada (covering his emissions by buying offsets in a working redwood forest), commending other states on their efforts to control global warming and bashing the federal government for failing to take action. His message is perfectly pitched both to Californians' belief that they are America's innovators and to the western suspicion of big government. It helps enormously that he is a Republican—"a Republican going against type" as Terry Tamminen, an adviser, puts it. If he were not, it would be easy to typecast him as a lefty tree-hugger.

Thanks in part to California's example, most of the western states have adopted climate action plans. When it comes to setting emission targets, the scene can resemble a posedown at a Mr Olympia contest. Arizona's climate-change wonks decided to set a target of cutting the state's emissions to 2000 levels by 2020. But Janet Napolitano, the governor, was determined not to be out-muscled by California. She has declared that Arizona will try to return to 2000 emission levels by 2012.

All of which is a welcome change from business as usual. California has not just inspired other states; it has created a vanguard that ought to be able to prod the federal government into stronger national standards than it would otherwise consider. But California is finding it easier to export its policies than to put them into practice at home.

The state's first hurdle, which requires it to generate a fifth of its electricity from renewable sources in three years' time, now seems impossibly high. Last year it managed just 11%. Although the energy companies are eagerly signing up wind and sun farmers, there is simply not enough supply out there—at least, at the price the companies want to pay. Meanwhile, the plan to install solar roofs on houses has been stymied by the high cost of photovoltaic panels, red tape and a requirement, temporarily suspended, that customers buy additional power at rates that vary according to demand. That would have increased some households' energy bills.

Loud words, soft actions

Despite making some optimistic assumptions about future contracts, the public utilities commission has concluded that the state will miss its target for renewables. And the aim of cutting emissions from electricity production to 1990 levels by the end of the next decade may be just as unrealistic. Art Rosenfeld, the energy commissioner, has tried to work out how it can be done. He, too, makes heroic assumptions about improved energy efficiency, but still cannot make the sums add up.

It is a bad sign that California's electricity suppliers are struggling, because electricity is something over which the state wields considerable control. It has less power over carmakers, who are fighting to prevent California imposing emissions standards on them. If they succeed, even temporarily, California's goals will become unreachable. Thanks partly to the lack of rain and snow in California, vehicles stay on the road for a long time. It takes 16 years for half the cars made in a given year to be retired from service.

The state has even less power to slow the growth of its population, or to dictate where people live. It hopes "smart growth" policies (which encourage people to live closer together, and to take public transport) can get it a whopping 15% of the way towards its overall 2020 goal. But the news from that front is discouraging. The state is growing fastest in what Joel Kotkin and William Frey, in a report for the Brookings Institution, call the "third California"—a wide strip of dusty land sandwiched between the Pacific coast and the Sierra Nevada mountains. Between 2000 and 2005 that area gained almost 1.4m people—twice as many as southern California and more than 27 times as many as the San Francisco Bay

area.

That is a huge environmental problem, for two reasons. First, it is even harder to do without a car in California's interior than in its sprawling coastal cities. Second, the interior is much hotter, which means more air conditioning. Compare, for example, arid Riverside County (which grew more quickly last year than anywhere else in the state) with maritime Monterey (which lost more people than anywhere). The average residential user in Riverside burned 9,911 kilowatt-hours of electricity last year, close to twice as much as the Monterey average of 5,458.

In one way, California's self-confidence is fully justified. It has done more than any other state—let alone the federal government—to fix America's attention on climate change. It has also made it seem as though the problem can be solved. Which is why failure would be such bad news. At the moment California is a beacon to other states. If it fails, it will become an excuse for inaction.

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Environmental policy (2)

Soot and safflower

Jun 21st 2007 | HELENA
From The Economist print edition

Can Montana's coal-loving governor be green too?

BRIAN SCHWEITZER, Montana's Democratic governor, proudly shows off the knick-knacks in his office: bottles of Montana biodiesel from old restaurant cooking oil, a lump of coal, a model car that runs on a hydrogen fuel cell. The governor himself drives a Volkswagen Jetta that runs on biodiesel. “Everywhere I go, people give me a jar of Montana hooch” to power it, he says.

The governor has taken up the cause of alternative energy with gusto. In 2005 he signed into law a “renewable portfolio standard” that requires 15% of electricity sold in Montana to be from renewables by 2015. Wind is already near 10%, he says, and improved transmission lines are on the way. Last month he signed a bill offering tax incentives to many renewables—including cellulosic ethanol and biodiesel. “It brings tears to my eyes whenever I see another field of camelina,” he says—an oilseed crop, like safflower and sunflowers.

But Mr Schweitzer's real passion these days is “coal to liquids” (CTL): diesel fuel from gasifying coal. This process is costly and emits lots of carbon dioxide, which is bad for global warming, but Mr Schweitzer says that much of the carbon can be sequestered. Montana's two senators—both Democrats, like Mr Schweitzer—also support CTL; an amendment to the federal energy bill pushed by one of them to help the industry has just failed in the Senate.

Mr Schweitzer's zeal is understandable. Montana has the largest coal reserves in America—120 billion recoverable tons, mostly under the high plains in the east. Although over 60% of the electricity Montana produces comes from coal, relatively little is tapped. Wyoming, with much smaller reserves, mines about ten times as much each year as Montana does, partly because it has better placed railway lines.

Mr Schweitzer's calculation is simple: he wants to reduce America's dependence on foreign oil and, just as important, create jobs in Montana, one of the poorest, least-populated and most suicide-prone states in the nation. His own pickup runs on diesel made from coal—though the fuel is from Oklahoma, as there are no CTL plants in Montana yet.

Greens are dubious. They point out that CTL is polluting and that the power plants use lots of water. The Environmental Protection Agency says that even if carbon emitted can be captured and sequestered, coal-to-liquids conversion would still emit slightly more carbon dioxide than petroleum. Mr Schweitzer claims in response that diesel-powered cars, more common in Europe, are 30% more efficient than regular petrol ones. Environmentalists reject this argument.

Greens seem pleased with his efforts in other areas, even if, they say, he is sometimes more bluster than action. After years of a void at the top, it is good to have a Montanan taking the lead on energy issues, says Chuck Magraw of the Natural Resources Defence Council. Many Montanans are already speculating about Mr Schweitzer's national ambitions. When asked, the governor merely says, with a hint of pride, that he may be too “irreverent” for Washington.

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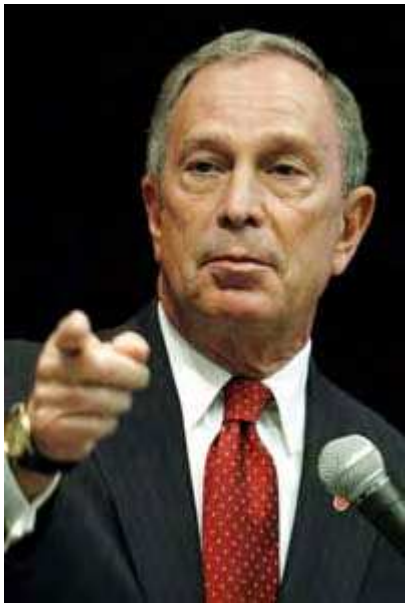
Michael Bloomberg

Aiming for the gold, with gold

Jun 21st 2007 | NEW YORK AND WASHINGTON, DC
From The Economist print edition

New York's mayor flirts with an independent bid for the presidency

AP



That nannying look

Get article background

AMERICA is not ready to elect as president a short, divorced Jewish billionaire. That is what Michael Bloomberg keeps telling reporters. But he does not believe it. New York's mayor has spent most of the year criss-crossing the country talking about gun control, immigration, health care and climate change—all national issues. On June 19th he announced that he was quitting the Republican Party to become an independent. The last time he switched party, from Democrat to Republican, it was to run for mayor. This time, it can only be because he has his eyes on the White House. He denies it, with a wink: on June 20th he said he would run if everyone else in the world were dead.

Third-party bids always fail, goes the conventional wisdom. But Mr Bloomberg must be taken seriously. First, he is so rich—*Forbes* puts his net worth at over $5 billion—that he can outspend both major parties without holding one fundraiser. Second, he is a pragmatic centrist—pro-choice, pro-gay, anti-deficit—at a time when Americans are sick of ideologues and party hacks.

His strategy, according to copious leaks, will be to wait until the Republican and Democratic nominees are known, which could be as early as next February. If the nominees are divisive enough to leave a gap in the centre, which seems quite likely, he will then plunge into the race. “Unity08”, a movement in search of a non-partisan candidate, would love to back him.

Mr Bloomberg's track record is impressive. He earned a fortune by founding a firm, Bloomberg LP, which provides financial data to banks via terminals he modestly called “Bloombergs”. He spent $115m getting elected as mayor of New York twice, and has done a pretty good job. Unemployment has plunged, crime is down 27%, tourism is thriving and the city's deficit has turned to glorious surplus. He has banned smoking nearly everywhere and trans-fats in restaurants. He has called for a 30% cut in greenhouse gases by 2030, a congestion fee for driving into Manhattan and cash transfers to ease poverty.

His detractors argue that it was his predecessor, Rudy Giuliani, who turned the city around, and that Mr Bloomberg has merely kept up the good work more nannyishly. Since Mr Giuliani is the front-runner for the Republican nomination, albeit a faltering one, this detail matters. Mr Bloomberg's boosters note that he has managed to run things well without infuriating half the city, as his caustic predecessor did. His detractors retort that it is easier to keep New York's main interest groups placid if, like Mr Bloomberg, you make huge donations to nearly all of them out of your own pocket.

Could he win? Larry Sabato, a professor of politics at the University of Virginia, does not rule it out. “Eventually America is going to have an independent president,” he says. “It's just a question of when.” Ross Perot, a Texan billionaire who made an independent run in 1992, reached nearly 40% in the opinion polls before people suspected he was nuts, observes Charlie Cook, a political analyst. Mr Bloomberg is obviously sane and competent, though no rousing speaker. In a three-way race against flawed opponents, he could win.

At the very least, he would affect the outcome. But no one knows how. Would he attract moderate Democrats who cannot abide Hillary Clinton? Or country-club Republicans tired of religiosity and incompetence? The candidate who lost the fewest supporters to Mr Bloomberg would probably win.

Mr Bloomberg's aides insist, however, that he does not want to run as a spoiler. Either he will run to win, or he will serve out his time as mayor (he must stand down in 2009) and then spend his silver years giving away his gold. In the meantime, presidential speculation ensures that no one sees him as a lame duck in New York.

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The budget

Limbering up for a fight

Jun 21st 2007 | WASHINGTON, DC
From The Economist print edition

This year's battle will not be pretty

JUST as clean-cut men leave the bar before a brawl breaks out, clever politicians try to avoid bruising public battles. So it is telling that one of the brightest stars in George Bush's team—his budget director, Rob Portman—announced his resignation on June 19th.

Mr Portman, a former Republican congressman from Ohio, is one of the (very) few administration officials who is admired by Democrats and Republicans alike. His reputation remains intact despite two years in the Bush team, one as its top trade official and another as budget director. His political ambitions are no secret. He is mulling a run for governor of Ohio in 2010. Many Republicans think Mr Portman could go further still.

A nasty row with Congress over the budget could tarnish this reputation. But that (partly on Mr Portman's advice) is exactly what the White House is gearing up for. The fight will be about domestic discretionary spending, the money that is appropriated every year to pay for everything from the Pentagon to national parks. Mr Bush wants to spend some $930 billion on domestic programmes next year, a 6% increase. He wants more money for defence and homeland security and less spending elsewhere. The Democratic Congress has demurred. Its budget resolution contains $23 billion more for domestic schemes than the president's.

Unacceptable, says the White House. Mr Bush is said to be ready to veto eight of the 12 annual spending bills for being too fat. For a man who has vetoed only three bills in more than six years in the White House, that is quite a threat. The reason is obvious. After the profligacy of his first term, Mr Bush is trying to salvage some credibility among fiscal conservatives. Doing battle with Democrats on spending bills sends a strong signal. So, too, does Mr Bush's choice to be the new budget chief. Mr Portman's nominated successor is Jim Nussle, another former Republican congressman, and one firmly on the party's conservative wing.

The potential for political theatre, including perhaps a government shut-down, is high. But this fight will do little to change America's fiscal future. Exclude defence (which nobody wants to cut back), and domestic discretionary spending makes up only 15% of the overall budget. There may be sensible savings to be made, but they won't reshape the long-term budget outlook. Far more important is to get spending on entitlements—the mandatory programmes such as Medicare—under control. To his credit, Mr Bush's budget proposed some cuts to entitlements, particularly Medicare. To its shame, the Democratic Congress has ducked virtually all of them. That is where Mr Nussle should be aiming his fire.

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Hemp

On a high

Jun 21st 2007 | SEATTLE
From The Economist print edition

Is weed the new green?

AP

Sprouting soon in North Dakota

“PLANS are afoot for a great expansion of the hemp industry.” So proclaimed the Department of Agriculture in its rousing 1942 movie, “Hemp for Victory”, which urged farmers to rally to the cause: “Hemp for mooring ships! Hemp for tow lines! Hemp for tackle and gear!” The plant's long, strong fibres twist easily into rope, which made it useful for parachute webbing. The war effort was imperilled when Japan's seizure of the Philippines curtailed America's supply.

But despite the enthusiasm of wartime planners, hemp never took root (as it were). Taxes and regulations, introduced in 1937 but minimally enforced during the war, kicked in again during the 1950s. Hemp is a variety of the cannabis plant, which also produces marijuana—though industrial hemp has a much smaller concentration of the mind-blowing compound, THC, than the smokable stuff. America's puritans, not to mention nylon-makers, wanted production shut down.

Nowadays farmers are banned from growing hemp without a permit from the Drug Enforcement Administration (DEA), which usually refuses to grant one. So many hemp products in America—food, lotions, clothing, paper and so forth—are imported from China or Canada, where farmers have been allowed to grow hemp commercially since 1998.

Could hemp make a comeback? America's greens have fallen for the stuff, and not just because plenty like the occasional puff. Hemp grows so easily that few pesticides or even fertilisers are needed. “Feral” hemp is said to grow by the roadside in Iowa and Nebraska. Barbara Filippone, owner of a hemp fabric company called Enviro Textiles, says demand has rocketed—sales are growing by 35% a year. Nutiva, a California-based hemp company that sells hemp bars, shakes and oils, saw sales rise from under $1m three years ago to $4.5m last year. “Hemp is the next soy,” predicts John Roulac, Nutiva's founder.

American farmers would love to grow hemp. North Dakota, which in 1999 became the first state to allow industrial hemp farming, has taken the lead. This week two farmers from the state filed a lawsuit to force the DEA to issue permits to grow hemp; the farmers had applied for permits back in February, thus far to no avail. Ron Paul, a Texas congressman and presidential candidate, could win over farmers in Iowa because of his pro-hemp lobbying. In February he introduced a bill in Congress that would allow Americans to grow it.

If hemp grows so easily, what about using the crop as a biofuel? A Mercedes-Benz “hemp car” did make its way across America six years ago. (Among other uses in cars, “Pimp My Ride”, an MTV show, recently featured a 1965 Chevy Impala that runs on biodiesel and has hemp upholstery.) Perhaps this is just the niche for Willie Nelson. He already has his own biodiesel line, called BioWillie, and is not unfamiliar with other uses of the cannabis plant.

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The Southern Baptists

Searching their souls

Jun 21st 2007 | SAN ANTONIO
From The Economist print edition

A sober second coming in deepest Texas

Get article background

WHEN thousands of Southern Baptist “messengers” arrived in San Antonio on June 12th-13th for their annual convention, some locals were less than thrilled. The restaurants that line the Riverwalk complained that it is hard to sell a margarita to a Baptist. Protesters held a prayer vigil near the Alamo on behalf of children molested by clergy. Others posed hard questions. “Southern Baptists are convening; will any Christians be with them?” wondered Roddy Stinson in the San Antonio *Express-News*. He is not the only Baptist who feels disillusioned.

At first glance, the Southern Baptist Convention (SBC) appears to be doing well. The Baptists claim more than 16m members and are, after Catholics, the largest religious group in America. Presidential candidates, at least on the Republican side, make sure they meet Frank Page, who heads the church, to chat about salvation.

But it is not necessarily easy out there for a Baptist. Enrolment is stagnant and baptisms are down slightly. Last year the SBC had a goal of 1m baptisms. They managed to get just a third of that number. “It's because we've not been right before God,” said Mr Page.

Dissatisfaction has been festering since the last time the Baptists met in San Antonio, in 1988. They were then nearing the end of—depending on whom you talk to—a “conservative resurgence” or a “fundamentalist takeover”. The SBC was divided over theology, particularly the issue of biblical inerrancy. Conservative Baptists, who maintain that every word of the Bible is literally true, had been consolidating power for a decade as SBC presidents appointed inerrantists to the boards of seminaries and agencies. The 1988 election was the closest in Baptist history and resulted in the election of yet another conservative.

Some moderates left the SBC in favour of more inclusive Baptist organisations. Those who remained found themselves increasingly marginalised. At the 2000 meeting one pastor ventured that the Bible is “just a book”. The crowd gasped. Then they revised the Baptist Faith and Message to say that the Bible is “totally true and trustworthy”.

This year Baptists seemed to be ready to be ever so slightly more inclusive. In 1988 delegates passed a resolution calling homosexuality “a manifestation of a depraved nature”. The SBC still believes that homosexuality is wrong. This year, the Baptists passed a resolution opposing hate-crimes legislation, because such measures could thwart Baptists from preaching against homosexuality. But they have moderated their tone. On June 1st Bob Stith, a former pastor from Texas, became the SBC's first National Strategist for Gender Issues. “We must be committed to sharing God's love with all people—including homosexuals,” he said.

One of the biggest issues at this year's convention was whether Baptists should be allowed to have a “private prayer language”. The phrase is typically used to mean something different from speaking in tongues. That is done in public, and tongues can in theory be translated for a general audience. (In practice, tongues-to-English translators are hard to find.)

Many Baptist bosses are suspicious of all forms of glossolalia. They would rather leave such displays to the Pentecostals. Some grudgingly accept public speaking in tongues, because St Paul grudgingly did so in his first letters to the Corinthians (“He that speaketh in an unknown tongue edifieth himself; but he that prophesieth edifieth the church”). However, private prayer language is not mentioned in the inerrant Bible. So a vocal contingent wanted the SBC to amend the Faith and Message to disavow private prayer language.

Others were reluctant to clamp down. A survey released days before the convention found that half of Southern Baptist preachers think the Holy Spirit gives some people the gift of a private prayer language. These forces succeeded in passing a resolution declaring the Faith and Message “sufficient in its current form”.

The most conservative Baptists are hardly defeated. They are well entrenched in SBC institutions. And even the most moderate Baptists are quite conservative. Mr Page, for example, supported the “conservative resurgence”. He was nevertheless considered an upset when he was elected last year because he was not endorsed by the SBC's most prominent conservative power-brokers. (He ran unopposed for re-election this year.)

Still, the SBC is in a period of self-examination. The faithful are weary of the fighting and think it harms the convention. “Personally,” wrote one blogger, “I don't believe that the Lord is going to send His Holy Spirit until there is repentance and reconciliation across the leadership structure of the SBC, which should be our primary prayer.”

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Fishing

Much ado about pollock

Jun 21st 2007 | DUTCH HARBOR, ALASKA
From The Economist print edition

Sleight of hand in the Atlantic and the Bering Sea

ALASKA POLLOCK—an inexpensive whitefish, used for processed seafood such as fish sticks and imitation crab meat—does not usually command the attention of the State Department. But a $9m shipment of it, currently sitting on a dock in the Moroccan port of Agadir, has embroiled governments on both sides of the Atlantic, and underscores the risks of doing business at sea.

The pollock was bound for Germany onboard the *Polestar*, a seafood-shipping vessel detained by Morocco's armed forces on May 24th at the request of several European countries. Although the fish was legal, the *Polestar* was on a blacklist of ships involved in illegal fishing kept by western European maritime authorities.

The *Polestar*'s cargo originated in the port of Dutch Harbor, Alaska, and the incident is an embarrassing one for the west-coast seafood industry. Alaska pollock caught from the Bering Sea are one of America's largest seafood exports. They come from a sustainable fishery, a rare thing in the seafood business, but one that consumers increasingly care about. Alaska pollock carries the label of the Marine Stewardship Council (MSC), a London-based organisation which certifies sustainable seafood. Wal-Mart, America's biggest retailer, announced last summer that within five years it would stock only MSC-certified fish.

No one has seriously alleged that the *Polestar*'s MSC-certified cargo, which was shipped by Trident Seafoods, was tampered with after it left Alaska. But the fact that it was on board a ship that had recently been caught loading illegal fish in the North Atlantic does not look good. The *Polestar* is a “tramper”, a ship that carries seafood without using containers—and can therefore, without need of a large crane or other port machinery, load up on the high seas from boats that have been fishing illegally. (It was caught loading redfish from Georgian vessels, and fled the scene.) In the pollock case, the State Department and the Fisheries Service of the National Oceanic and Atmospheric Administration have spent recent weeks attempting to distance the legitimate fish from the illegitimate vessel.

The North East Atlantic Fisheries Commission, meeting last week, decided that the pollock could proceed to Europe as long it was on a legal ship. The *Polestar*'s fate remains undecided. But the business of international shipping is notoriously lawless and, in some respects, becoming more so. American and European fisheries regulators believe that as countries crack down on illegal fishing in their own waters, more outlaws are engaging in the kind of high-seas transactions that got the *Polestar* into trouble. And this case serves warning to the intermediary companies involved in shipping seafood that they are sailing in dangerous waters.

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Lexington

Pillorying Hillary

Jun 21st 2007
From The Economist print edition

Kevin Kallaugher

More voters dislike Hillary Clinton than any other candidate. Will that stop her winning the presidency?

“YOU and everyone you know probably despise Hillary Clinton. There's almost nothing about her that appeals to you. You think she stayed in her marriage because she was hungry for unelected power, and that disgusts you.” And so on. The quote is from “Can She Be Stopped?”, a polemic by John Podhoretz, a conservative columnist. It says something about the polarisation of American life that an author can assume not only that his readers hate Hillary (a fair bet, given the book's title and scary cover photo) but also that they don't know anyone who doesn't. Mrs Clinton would doubtless dismiss Mr Podhoretz as part of the Vast Right-Wing Conspiracy. But he is not alone in disliking her. Polls suggest that between 40% and 50% of Americans have an unfavourable view of the junior senator from New York. They are a vast obstacle to Mrs Clinton's presidential ambitions.

Why do people detest her? Let Lexington count the ways. First, and most obviously, conservatives cannot stand her. They see her, as Bay Buchanan (Pat's sister) put it in another recent Hillary-bashing book, as an “ardent feminist, anti-war activist and student radical” who “did not leave her passion for all things liberal behind on the campuses of Wellesley and Yale”. The Hillary of conservative demonology is practically a socialist. (Well, she did try to put the government in charge of health care.) She is anti-family. (She once wrote an essay about children's rights which few have read but many believe argues that children should be allowed to sue their parents. It does not.) She is a standard-bearer for the counter-culture of the 1960s. (As a student, she gave a speech endorsing “freedom from the burden of an inauthentic reality” and “more immediate, ecstatic and penetrating modes of living”.) And she thinks abortion should be legal.

Second, and more surprisingly, many on the left loathe her too. The anti-war crowd resents her for voting to allow the use of force in Iraq. Plenty of other Democrats voted the same way. But Barack Obama did not and John Edwards, who did, has apologised. Mrs Clinton refuses to. This infuriates the likes of Code Pink, an anti-war group whose members pursue her with chants of “It takes one bomb to raze a village” and “You were first lady and now you're least/ Get the US out of the Middle East.”

Many ardent feminists also abhor Mrs Clinton. *In These Times*, a left-wing magazine, published an essay in April entitled “Why Women Hate Hillary”, arguing that in her determination to appear as ruthless and macho as her male rivals, she has betrayed the women's movement. The *Nation*, another lefty periodical, recently ran a cover story arguing that while many women approve of Mrs Clinton, a lot of feminists think she is “a ventriloquist for the patriarchy”, in the words of Jane Fonda, an actress.

The anti-Hillary jibes of left and right cannot all be true. For all her talents, Mrs Clinton cannot be a warmonger and a peacenik, or a radical feminist and a shill for the patriarchy. Perhaps if extremists of both left and right detest her, she must in fact be a nice, reasonable moderate. There is something to this. Since the debacle of Hillarycare, and especially since she joined the Senate in 2001, she has eschewed radicalism in favour of cautious, incremental steps to improve health care, the environment and national security. But it is not only her policies that people dislike, nor is it only extremists who dislike her.

For many, it is Mrs Clinton's personality that grates. Her supporters say that many men cannot abide an ambitious woman, and that is doubtless true. But there are also plenty of unbigoted Americans who believe that Mrs Clinton will say or do anything to win power. She put up with her husband's constant philandering and branded as liars women she knew were telling the truth about him. She supports causes many doubt she really cares about (such as banning flag-burning) and publicly opposes some she may privately believe in (such as gay marriage). She can be abrasive: she threatened to “demonise” Democratic congressmen who quibbled about her health-care plan. She can be extraordinarily self-righteous. Dick Morris, an adviser-turned-foe, claims he once advised her to admit to a personal flaw to make herself seem more human. He says she could not think of one. And she has what Carl Bernstein, a somewhat sympathetic biographer, describes as “a difficult relationship with the truth”.

Disliked, but still most likely

Yet none of this means her presidential bid is doomed. Far from it. Mrs Clinton may not be the most likeable of candidates, but she has enormous strengths. She has learned from past mistakes, even if she has not admitted them. She has a prodigious memory, a bottomless capacity for hard work and a quarter-century of experience of national politics. In debates, her grasp of policy makes her Democratic rivals look callow or shallow. Her campaign organisation is second to none. She can borrow credit for the peace and prosperity of the first Clinton era. And whatever Ms Fonda would prefer, she gets a huge boost from women who want to see one of their own in the White House. In part because there are more female Democrats than black ones, she leads Mr Obama by double digits in polls of likely primary voters.

Winning the general election will be harder, though. Americans tell pollsters they would rather elect a Democrat than a Republican, but when asked to choose between Mrs Clinton and the Republican front-runner, Rudy Giuliani, they usually prefer him. Whereas Mrs Clinton's Democratic rivals are reluctant to attack her personally—Mr Obama apologised this week for a mild slur from an aide—Republicans will take their gloves off.

But as the publication this month of two exhaustive new biographies showed, there is little fresh dirt to dig up on Mrs Clinton. And since Americans have already heard the worst, her negative ratings may already have hit a ceiling, which is probably not true of any other candidate.

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Correction: hurricanes

Jun 21st 2007
From The Economist print edition

Our story on hurricanes (June 7th) claimed that the National Oceanic and Atmospheric Administration "plans to spend $4m celebrating its own 200th anniversary", while trimming funding for the National Hurricane Centre. This was wrong: the NOAA is spending $1.5m over two years on an educational programme tied to the founding of one of its predecessor agencies, the Survey of the Coast. Our apologies.

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Canada

Time to put a tiger in his tank

Jun 21st 2007 | OTTAWA
From The Economist print edition

Claudio Munoz

Stephen Harper's minority Conservative government is in need of an overhaul

Get article background

JUNE has not been a good month for Stephen Harper, the Canadian prime minister. At the G8 summit in Germany his record on foreign aid was singled out for special criticism by two Irish rock stars with planet-saving ambitions, Bono and Bob Geldof. His return to Canada was blighted by the loss of a Conservative MP, bounced from the party's caucus for opposing the budget, and by a confrontation caught on camera with an 80-year-old widow, who accused him of lying about extending veterans' benefits. The government's much-vaunted green plan was denounced as ineffectual by a prominent think-tank usually sympathetic to the Conservative cause. And as Parliament limped toward its summer recess this week, two angry premiers descended on Ottawa to castigate the prime minister for supposedly breaking his word to them on financial transfers to their provinces.

It is a far cry from six months ago, when Mr Harper was riding high in the polls and appeared poised to call an election that would turn his governing Conservative minority into a majority. After one year in power, he had largely kept five narrow campaign promises and could convincingly argue the need for a new mandate. But the chance disappeared as public support for the Conservatives, which peaked after the launch of a generous budget in March, quickly dropped back into minority territory, where it remains.

Such a litany of woes might be expected to worry a party that holds only 124 of the 308 seats in the House of Commons (there are 100 Liberals, 49 Bloc Québécois, 29 New Democrats, four independents and two vacant seats). Yet Mr Harper continues to exude confidence.

There are two main reasons for this. One is that although the wheels appear to be coming off the Tory motor, which was only ever designed for a short race, the opposition parties are having trouble even starting their engines. The second is the insouciance of ordinary Canadians, who are benefiting from a strong economy and record low unemployment. There is really not a lot troubling the nation, says Darrell Bricker, a pollster; Canadians have never been more optimistic.

This is not what the Liberals want to hear. They continue to hammer the government for its handling of Canada's military mission in Afghanistan, and its weak plan to clean up the environment. But they are hamstrung by their own record. It was a Liberal government that first sent troops to Afghanistan in 2002. They were also responsible for a much-criticised deal in which prisoners captured by Canadian forces were handed over to Afghan troops and then allegedly tortured. Their position is equally weak on the environmental front. Having signed the Kyoto protocol, they did little to meet its stringent targets for emissions reductions.

Indeed, all three opposition leaders have problems. Stéphane Dion, chosen by the Liberals last December, remains largely unknown outside his Quebec base. Gilles Duceppe of the Bloc Québécois is

suffering from a self-inflicted blow after announcing his departure for provincial politics this spring, only to change his mind within 24 hours. And Jack Layton of the leftist New Democrats seems powerless to stop an erosion of party support in favour of the Greens, even though this is a fringe party that has yet to get a member of parliament.

Although all this is grist for the political mill on Parliament Hill, it seems to leave the rest of Canada virtually untouched. Consumer spending remains strong, with house prices shattering all records in May. Unemployment at 6.1% is at a 33-year low. Even the beleaguered manufacturing industry, battered by a high dollar and competition with China, has staged a rebound. The economy is “worrisomely good”, says Philip Cross, chief economic analyst at Statistics Canada, the national statistical agency.

Foreign investors appear to share that opinion and are snapping up Canadian companies in record numbers. This has prompted a debate about whether corporate Canada is being “hollowed out”. Many wonder whether Canada's corporate bosses are sufficiently aggressive. But even this debate is taken as a sign of economic strength; only good times allow the luxury of navel-gazing.

With an early election in no one's interest, the government has no choice but to set a new course for the long haul. That involves making peace with the provinces and those segments of the business community who feel bruised by unexpected tax measures in the last budget. It also requires a new plan of action to replace the former five priorities.

Hugh Segal, the Conservative senator who helped co-ordinate the last election campaign, is sceptical about the need for grand visions. What is required, he says, are policies to address the big challenges like immigration, trade, corporate tax and the environment. Tax cuts in particular would reassure the government's core supporters, based mainly in the western provinces, that the administration they helped to elect still believes in smaller government and lower taxes. Tory efforts to win votes in Quebec by lavishing money on the province and promoting green policies have led to disillusionment among some westerners, who have long felt estranged from the central government.

The Tories probably had these supporters in mind when they decided to sponsor a racing car on Canada's NASCAR circuit this summer. Although not environmentally friendly—the cars guzzle petrol—the sport appeals to the ordinary working Canadians whose interests Mr Harper frequently invokes. Perhaps the prime minister will even attend. Watching a finely tuned engine whiz around the track might inspire him to rev up his own sputtering government machine.

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Cuba

The revolution is not yet over

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Raúl Castro's wife dies; the EU opens talks; Fidel continues to pontificate

Rex Features

Vilma, fascinated by Fidel, when the revolution was still young

“EVERYONE was waiting, some with sadness and others with oligarchic glee, for the crumbling of the Cuban Revolution.” So says Fidel Castro this week in the latest of a series of articles published in *Granma*, the official Communist Party newspaper. The president was referring to the so-called “special period” in the early 1990s, following the collapse of the Soviet Union. But he could just as easily have been referring to the past year.

It has been nearly 11 months since he fell ill with what was at first presumed to be cancer, and ceded day-to-day power to his younger brother, Raúl. Obituaries of the man who has led Cuba for nearly half a century were hastily dusted down and commentators began speculating about “Cuba after Fidel”. Too soon. After a series of operations for abdominal problems, the president, now 80, has recently been showing that there is life in the old man yet. Little has changed since he stepped down: “no increase in opposition activity, and no real innovation in economic policy,” says Philip Peters of the Lexington Institute, an American think-tank.

But even the Castro family is not immortal, as demonstrated this week by the death of Vilma Espín, Raúl's wife and Cuba's unofficial First Lady (Fidel's various partners have tended to stay out of the public eye). She was 77, one year older than her husband. Ms Espín helped organise an urban uprising against Fulgencio Batista, Cuba's military dictator, who was overthrown by Fidel Castro in 1959. Despite her upper-class background—she did a year of graduate study at the Massachusetts Institute of Technology in the United States—she took to the communist rebels wholeheartedly, later joining Fidel's revolution in the mountains, where she also first met Raúl.

Ms Espín was the most politically prominent woman in Cuba. She was a member of the Politburo from 1980 until 1991 and frequently escorted Fidel to official events. But her death will not affect the generational struggle that seems to be under way behind the acting president. Carlos Lage, the vice-president, and Felipe Pérez Roque, the foreign minister, remain the two most prominent younger politicians; Ricardo Alarcón, leader of the National Assembly, and Ramiro Valdés, a former interior minister and now minister of communications, are the two most prominent elder statesmen after Raúl.

In fact there seems little chance of either of the two Castro brothers disappearing from the political scene in the near future. Although Fidel has not appeared at a public event since stepping down, he has been seen on television talking to visiting dignitaries, and appears to be recovering from whatever it was that ailed him (officially a state secret, though believed to be diverticulitis, an intestinal disorder).

But if little seems to be changing inside Cuba, its long-strained relations with the West may be easing.

This week the European Union invited a Cuban delegation to Brussels for a “political dialogue”—the first official contact in four years. Human rights will certainly be on the agenda. What else they might discuss or who might attend remains vague.

In the United States meanwhile a March poll by Florida International University of Cuban Americans in the state found that 65% favour dialogue with Cuba. That is up from 55% in 2004 and the biggest proportion supporting dialogue since polling began in 1991. As America's presidential election nears, this might at last begin to encourage American politicians to stand up to the powerful Cuba lobby that has resisted any negotiation with Castro's government for so long.

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Mexico

Having his cake and eating it

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From The Economist print edition

Felipe Calderón unveils a bold fiscal reform package

Get article background

ONE way to avoid getting stuck in the mire of the Mexican tax code is to ensure that you're far away when attempts are made to change it. So while Agustín Carstens, the finance minister, was delivering to Congress on June 20th the most ambitious economic reform package of Felipe Calderón's six-month-old administration, the president himself was off in Huamantla, a small mountain town 120km (75 miles) east of Mexico City.

Mr Calderón's proposals are designed to solve a dilemma. If no changes are made to Mexico's existing fiscal structure, the government will face a deficit of 2.9% of GDP by the end of Mr Calderón's term in 2012, according to Mr Carstens. So reform is urgently needed. But it also represents a potential political minefield.

Vicente Fox's failure to impose value added tax (VAT) on food and medicine in 2001 was among the first of many of the former president's failings. Unlike his predecessor, Mr Calderón has already succeeded in pushing some economic reforms through early in his term, notably an overhaul of pensions for public employees. With the help of the opposition Institutional Revolutionary Party, it sailed through Congress in a matter of days. His fiscal reform may yet do the same, though some wrinkles may need smoothing out. It seems to have been rushed to Congress without its final finishing touches after details were prematurely leaked to the press.

The reform seeks to increase efficiency in government spending by trimming 0.5% of GDP, or some $4.2 billion, from total expenditure. Just where these savings would come from is not immediately clear. The proposal calls for the creation of a National Council for the Evaluation of Public Policy, which would evaluate the budgets of both the federal and state governments. It also gives states the power to levy an additional sales tax on goods and services already taxed by the federal government.

Mr Fox's proposed sales tax was enormously unpopular. By giving this power to the states, Mr Calderón seems to be trying to please economists with a consumption tax, while passing most of the political cost on to state governments. Increasing the states' fiscal autonomy may be a laudable goal, but because Mexico has a federal system, it is not clear that it will help increase efficiency, as Mr Carstens claims. He expects the states to raise an additional 1% of GDP in taxes, while new federal-level taxes should account for an additional 2% by the end of Mr Calderón's term, with 1.2-1.5% already achieved by next year.

This will be done, Mr Carstens says, without any increase in income tax. The goal is to broaden the tax base, not to increase the tax burden on those (mainly the salaried middle-class) who already pay taxes. This will be done by an “informality tax” of 2% on cash deposits exceeding a cumulative monthly 20,000 pesos ($1,850), which formal workers will be able to deduct from their taxes, and by increasing penalties for tax evaders. The plan also creates a new alternative minimum tax (initially 16%, rising to 19%) on firms. This would work by taxing income minus investment and physical inputs rather than simple profits per se, as at present.

Even if the reform goes through, Mexico's total tax burden as a share of GDP, at present 10-11%, will remain lower than the Latin American average. It will free up some resources from Pemex, the state petroleum company, which currently provides some 40% of government revenue and consequently lacks resources to invest in further exploration. But the reform falls short of tackling the energy sector's problems, presumably in a bid to reduce legislative opposition. The next few weeks will show whether that bid will succeed.

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Ecuador

Having it both ways

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To be green or to be rich, must that be the question?

THE Yasuní National Park in Ecuador's Amazonian rainforest is one of the most biodiverse spots on earth. In 1989 it was designated a UNESCO Biosphere Reserve. Under it lie the Ishpingo Tambococha Tiputini oilfields with estimated reserves of almost 1 billion barrels, representing almost a quarter of the country's total known reserves. Their exploitation could produce around $700m a year—a big temptation for Ecuador's leftist president, Rafael Correa, who is anxious to find a way to finance his new populist social policies. But he has also pledged to promote environmentally friendly policies, and this often clashes with his need for cash.

Some of his more radical supporters had hoped for a moratorium on new oil development and other environmentally unfriendly activities such as mining and logging. Instead Mr Correa seems to be leaning towards what he calls “development in communion with, not against, nature” to pay for his “21st century socialism”. Many even within his own administration are unhappy with this apparent betrayal of his green ideals. His minister for energy and mines, Alberto Acosta, an economist and ardent green, recently resigned after clashing with state oil-company officials over his plan for the oilfields.

Under this plan, launched this month by the president, the government would agree not to develop the oilfields in return for an annual payment of $350m—half the expected revenue from its exploitation. Paid by whom? Mr Correa talks of it being raised through “donations, debt trades and unexploited crude-oil certificates” from the “international community”. How it would in practice work is anyone's guess.

Some greens have hailed the proposal as “creative” and a “sign of the future”. But most people regard the whole idea as pie-in-the-sky. Why should anyone be willing to subsidise Ecuador, by no means the poorest country in Latin America, to keep its oil in the ground? Ecuador already spends three times as much on annual fuel subsidies, much of it feeding contraband, as it could expect to earn from the Yasuní oil fields. Furthermore, the donations would go more toward social programmes rather than environmental conservation.

Even Mr Correa does not seem convinced that the plan will work. Rather than cheerleading the initiative at its launch, he spent more time warning voters that the government might have to sink oil wells anyway. But he may earn some credit with environmentalists for trying. And if it does not work, he can always blame the outside world for being so stingy.

Ecuador also has rich metal deposits, mainly gold and copper, worth as much as $160 billion. But mining activities are still limited. Mr Correa says Ecuador will help to develop both its mining and its oilfields to lift itself out of poverty. But, as Mr Acosta liked to point out, this is a country that has produced about 4 billion barrels of oil, worth some $82 billion, since production began 40 years ago—and poverty is still a problem. Besides, those green issues, on which much of Mr Correa's appeal is based, will not simply fade away.

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Protest in China

Mobilised by mobile

Jun 21st 2007 | BEIJING AND XIAMEN
From The Economist print edition

AP

Organised by text messages and internet chats, China's middle classes are daring to protest, and giving the government a fright

Get article background

INFORMATION technology in China is once again making political waves. In the tropical seaport of Xiamen citizens still talk excitedly about how an anonymous text message on their mobile phones last month prompted them to join one of the biggest middle-class protests of recent years. And in Beijing politicians are scrambling to calm an uproar fuelled by an online petition against slave labour in brick kilns.

Chinese officials have had reason to worry before about the rallying power of the internet and mobile phones. Two years ago they helped activists organise protests against Japan in several Chinese cities. But the government, at least initially, sympathised with those protests. By contrast the demonstrations in Xiamen were directed at officialdom, and the slave-labour scandal embarrasses the government. It involves allegations that officials ignored kiln-owners' use of abducted boys to perform dangerous work. This has triggered a heated online debate about the political flaws that allowed such horrors to happen.

The text message in Xiamen, circulated in late May, called for a rally outside the city government's headquarters on June 1st to protest against plans to build a huge chemical factory on a site, pictured above, in the suburbs. It compared building the $1.4 billion plant for making paraxylene, used in polyester, to dropping an “atomic bomb” on Xiamen. It warned readers that the factory could cause leukaemia and birth deformities among the city's 2.3m residents and their offspring (hence the choice of June 1st, children's day in China).

The response was remarkable. Xiamen has a thriving economy and little history of protest. Yet many thousands of people rallied and marched, even though it was Friday, a working day, and as usual hot and humid. They came mostly from China's fast-growing middle class, a group the Communist Party usually regards as a dependable bulwark of support. In many Chinese cities there have been small-scale middle-class protests over issues related to property rights. But they are rarely directed at city governments.

Even more remarkable is that the protest occurred in the face of clear government disapproval. Civil servants were warned they might be punished for taking part. Government offices even required their employees to keep working on the weekend of June 2nd and 3rd to prevent them taking to the streets. On May 30th the government appeared to make a big concession by announcing a suspension of the project pending a further environmental review. But the protest went ahead two days later anyway. At one point some people shouted slogans calling on the city's party chief, He Lifeng, to resign, but the demonstration was peaceful. Thousands marched again on June 2nd.

The text message seemed to touch a raw nerve. Public confidence in the city leadership had been

damaged by a proposal submitted to China's parliament in March by senior academics that the Taiwanese-owned paraxylene plant be moved further away from residential areas. Previously, say residents, the Xiamen government had given no indication that paraxylene might be hazardous. Criticism of the project began to flourish on local internet chat forums and blogs. Many complained that the plant would further ruin a once pleasant seaside city already threatened by smog and polluted seawater.

The protests in Xiamen must be worrying to officials in Beijing. Urban environments have been deteriorating across the country. If tolerance for this among the middle classes were to crumble, unrest could spread. Ominously, from the party's perspective, hundreds of Beijing residents rallied outside the offices of the State Environmental Protection Administration (SEPA) on June 5th. Their complaint was about plans to build a waste incinerator in the north-west of the city, which they said could spread toxic chemicals. Two days later SEPA called for a further investigation of the incinerator project as well as of Xiamen's urban development plans.

Chinese leaders have been similarly quick to respond to the torrent of online protest—and even some stiff criticism by the state-owned press—provoked by the reports of slave labour in the provinces of Shanxi in the north, and Henan, to its south. A petition posted on June 7th by fathers of abducted boys on *Tianya*, a popular internet discussion forum, spread rapidly. Official newspapers soon picked up the story, describing the brutal conditions in which the labourers were held captive and the indifference of local police. Within eight days China's leading politicians were reported to have stepped in. Hundreds of “slaves” were declared to have been freed and many of their bosses arrested.

In Xiamen, having made their last-minute concession, officials are now trying to track down behind-the-scenes organisers of the protests (some residents believe property developers, worried about the impact of the project on prices, encouraged people to take part). Notices have been put up in residential buildings calling on protesters to surrender themselves to police. But such tactics inspire far less fear than they did in the wake of the Tiananmen Square protests of 1989. Some residents say they now want a referendum on the project. A professor at Xiamen University says that if the project's opponents win, a new “environmental consciousness” will spread to other Chinese cities.

For all their pro-green rhetoric, China's leaders would abhor this. They remain deeply wary of environmental groups, fearful that if given a free rein they could rapidly mobilise middle-class opinion against government policies. Nick Young of *China Development Brie*f, a newsletter, says that these concerns increased in the wake of democratic revolutions early this decade in several former Soviet states. Although they eased a bit last year, Mr Young thinks the government will remain cautious. Xiamen has only one officially registered non-governmental environmental group. It has kept itself nervously aloof from the paraxylene-plant campaign. In Xiamen as elsewhere, it is China's online civil society that is leading the charge.

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Cambodia

Promises, promises

Jun 21st 2007 | BANGKOK AND PHNOM PENH
From The Economist print edition

Hun Sen runs rings round his donors

THIS week saw an annual ritual acted out between Cambodia's government and its ravening hordes of foreign donors. The donors tut-tut at the government's breaking of last year's promises to curb corruption and human-rights abuses. The government trots out the same promises all over again. The donors laud its modest achievements in other areas. Then they announce another big dollop of aid. This year the foreign governments, multilateral agencies and charities pledged $690m, 15% more than last year, thanks to China's decision to join the annual aid-pledging process, thus adding its donations to the total.

Global Witness

Logged off

The promised aid exceeds the Cambodian government's entire annual tax revenue. Fortunately, in light of how much public money is looted by corrupt officials, most will go directly to poverty-cutting projects without passing through government coffers. As ever, the prime minister, Hun Sen, promised that an anti-corruption law, stuck in parliament for years despite his big majority, would soon be passed. The donors know that the law might make little difference, given how erratically the country's existing laws are applied, especially to those in government circles. But it would at least look like progress.

Not all is bad in Mr Hun Sen's government. Its openness to trade, investment and tourism has boosted economic growth to almost 11%. Public finances are on a sounder footing, and education and health services are slowly improving. Deaths and disappearances of government opponents have almost ceased in recent years. But there is little progress on curbing graft and other abuses.

This was illustrated earlier this month when Global Witness, an environmentalist group, published a detailed dossier alleging involvement in illegal logging by people close to the government. The group spent months seeking responses from those it named. Rather than reply, they waited until the report was published and then reacted in their customary, hysterical manner. The prime minister's brother, Hun Neng, a provincial governor mentioned in it, said that if anyone from Global Witness returned to Cambodia he would “beat him on the head until it broke.”

There was a similarly aggressive reaction to a report this month by Yash Ghai, the United Nations' human-rights envoy to Cambodia, which said assassinations, land-grabbing and other abuses were going unpunished. As in previous years, Mr Hun Sen preferred not to respond to the allegations, but fired off a barrage of personal insults at the envoy.

It is only recently that Mr Hun Sen stopped treating the donor governments and agencies with similar contempt. At least he has stopped biting the hands that feed Cambodia. But, says Erik Illes of SIDA, Sweden's foreign-aid agency, there is “growing frustration” at the lack of progress on corruption and human rights. Mr Hun Sen reminds Western donors that if they get too demanding, he can always rely on China to provide soft loans without strings. The big oil revenues that Cambodia will start earning in the next few years will also reduce foreign donors' leverage, laments Mr Illes.

However, argues Mike Davis of Global Witness, the prime minister craves international respectability as well as cash, and China alone cannot give him this. So the donors, if they united to make tougher demands, could make it clearer that his behaviour is beyond civilised bounds. The trouble is that donor governments and multilateral organisations often assign inexperienced staff to Cambodia. That makes it easier for Mr Hun Sen to bully them into silence.

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Timor-Leste

Taking turns

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Policies? Who needs them?

UNDER the slogan “We liberated the country...now we liberate the people,” Xanana Gusmão is campaigning tirelessly for Timor-Leste's first parliamentary election on June 30th. Mr Gusmão, leader of the resistance to Indonesian rule, was president from independence in 2002 until last month. That post is now filled by José Ramos-Horta, a Nobel peace-prize winner for his work in the exiled resistance. In the presidential election he easily defeated the candidate of the ruling party, Fretilin. Mr Gusmão now wants to succeed his old ally as prime minister.

Members of his brand-new party, the National Congress for the Reconstruction of Timor-Leste (CNRT), are feverishly drafting a party constitution and programme. Mr Gusmão may well win even without them. The CNRT's rallies attract huge crowds. But its campaign relies solely on Mr Gusmão's charisma and on berating Fretilin for incompetence and corruption. The CNRT, whose name recalls the resistance coalition Mr Gusmão led in the late 1990s, does not even try to offer policies.

Reuters

Xanana (front) and José: job-swappers

Mr Gusmão can count on the support of other opposition parties and the sympathy of the influential Catholic Church. All are keen to see the back of Fretilin, led by Mari Alkatiri, and dominated by his “Maputo clique” of former exiles in Mozambique. It is also beset by factionalism. One “Reform” faction has even joined Mr Gusmão's campaign and is urging its followers to vote for the CNRT. But Fretilin is still the party with the largest registered membership. Observers expect a neck-and-neck race with the CNRT. Members of the 65-seat parliament will be elected by proportional representation for a five-year term. Of the 14 parties or coalitions taking part only two others are expected to win many seats. They are more likely to join a CNRT-led coalition.

Campaigning has been fairly peaceful. But violence may be triggered by last-minute moves made by the Fretilin-dominated parliament. It changed the electoral law so that votes will now be counted in district towns rather than at each polling station. Ostensibly to prevent village-level intimidation, the change will bring an increase in allegations of vote-rigging. Since a breakdown of security last year the UN has again had a big presence in Timor-Leste, along with Australian-led peacekeepers. Fretilin does not trust them to guarantee security, though the presidential election was peaceful.

The new government will face daunting problems: a poor, malnourished population with the world's highest fertility rate; high unemployment; gang warfare between groups of disaffected youths; some 100,000 displaced people in camps; and an army deserter holed up with his well-armed followers in the mountains.

Yet it also will have more than $1.2 billion in oil revenue squirreled away. Mr Ramos-Horta, who constitutionally has no control over economic decisions, has been promoting Timor-Leste as a free-trade zone. He also wants to subsidise rice- and coffee-farming and to distribute some of the oil money in cash handouts to the poor. This fiscal populism alarms some observers, such as the International Crisis Group, a think-tank, which expects a CNRT administration to be more consultative and transparent than Fretilin, but questions its “professional skills”. Whichever party wins, an ICG report gloomily concludes, the result will be a much less unified government that is unlikely to be any more effective than its predecessor.

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Pakistan

Conspiracy theories

Jun 21st 2007 | LAHORE
From The Economist print edition

Protesters turn their wrath on foreigners

Get article background

ANTI-WESTERN, anti-American ideologues are having a field day in Pakistan. America is accused of nudging General Pervez Musharraf, the president, into making an alliance with Benazir Bhutto, a pro-Western former prime minister of Pakistan, currently in exile. And the British government is accused of conspiring with the queen to insult the Muslim world by knighting Salman Rushdie, a novelist accused of blasphemy (see article).

The American conspiracy theory was aired in the press following the arrival in Islamabad of three top American officials on each other's heels last week: Richard Boucher, the assistant secretary of state for South Asia; John Negroponte, the deputy secretary of state; and Admiral William Fallon, commander of Central Command (CENTCOM). Mr Boucher met General Musharraf and told the press no more than the usual flannel about "more democracy" being good for the country. To the chagrin of Pakistanis who have been protesting for weeks, he did not say that General Musharraf should resign as army chief, as the constitution demands he do at the end of the year. Mr Boucher's compatriots were no more forthcoming.

AFP

Bring back my Benazir to me

Before the Americans left, however, they assured Pakistanis they had not come to broker a deal with Miss Bhutto, and stated that free and fair elections were far more important to Pakistan's development than the issue of General Musharraf's "uniform".

In fact the superpower is more interested in leaning on General Musharraf to "do more" to help NATO quell the Taliban's expected summer offensive in Afghanistan than in nudging him to restore power to civilian politicians. But the trio's visit does seem to have led to a change in General Musharraf's strategy for clinging to power. Earlier he was adamant that he would ask the current parliament to re-elect him as president in September and hold general elections three months later. Now he is pondering a general election in September or October, and a presidential re-election by the new parliament. Since the president is not certain of winning a majority in the new parliament he would either have to rig the general elections or strike a power-sharing deal with Miss Bhutto. Both sides deny it, but talks between them are progressing well in Dubai.

Meanwhile Mr Rushdie's knighthood has outraged many Muslims. Federal and provincial parliaments have denounced it as a conspiracy against Muslims. The minister for religious affairs, Ijaz ul Haq, son of Zia ul Haq, an Islamist military dictator of the 1980s, thundered that suicide bombers would be justified in avenging the insult. Mr Haq has since recanted, after the British government protested. When one of Miss Bhutto's members of parliament stood up to argue that Pakistan should not meddle in internal British matters, he was roundly denounced. But when someone remarked in the parliamentary cafeteria that it would serve Mr Haq right if he were banned from Britain for instigating terrorism, Miss Bhutto's followers at least saw the bright side.

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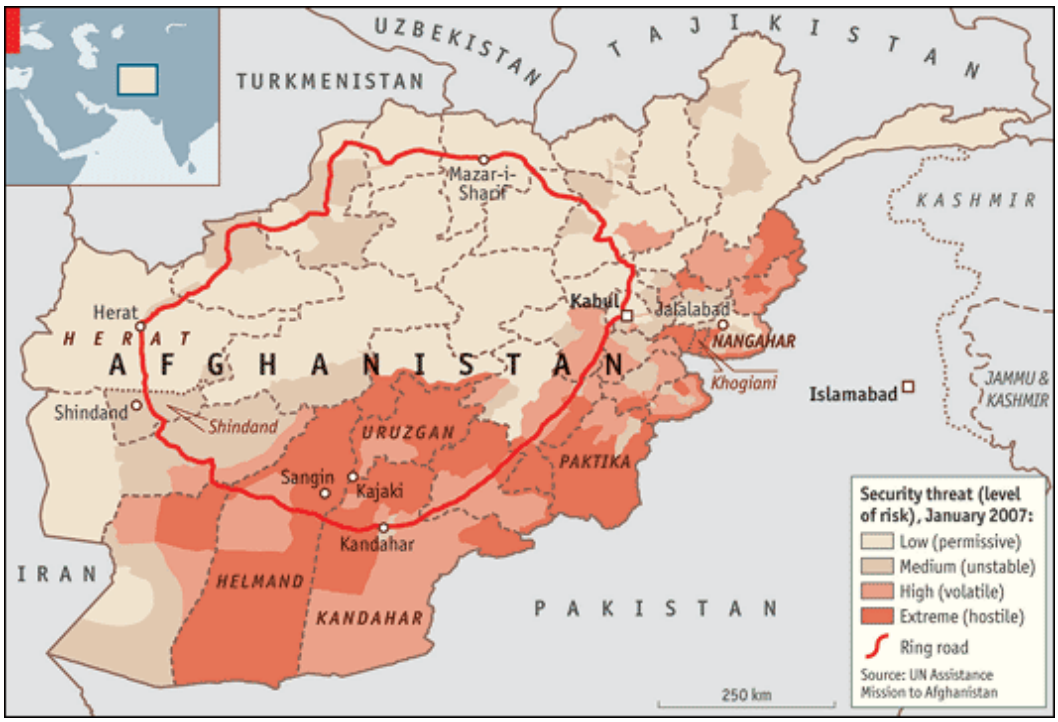
Western forces in Afghanistan

Unfriendly fire

Jun 21st 2007 | KHOGIANI DISTRICT
From The Economist print edition



The West's self-inflicted wounds in the fight against the Taliban and al-Qaeda

ON THE night of June 11th American special forces were heading out to raid a suspected Taliban safe house in the district of Khogiani when they came under fire. They called in air-strikes, which hit two enemy positions and a convoy bringing reinforcements. The trouble is, the seven men killed by the Americans were not Taliban but Afghan police. When policemen returned to the scene the next day, they found a severed arm holding a smashed machinegun.

Both American and Afghan forces wrongly thought they were under Taliban attack. But more than a ghastly error, the incident was a case of appalling planning. The police posts had been established three months earlier, were protected by Western-supplied barriers and had been visited by American troops two weeks earlier. Local Afghan leaders said they had not been told of the special forces' operation. Even Captain Jonathan Zimmer, commander of American forces at the nearest NATO base, five miles (8km) away, was in the dark. When he met tribal elders to apologise, one told him: “You apologise, but you keep making mistakes.”

The next day in Paktika province an American bombing raid on a mosque and *madrassa* compound, said to be an al-Qaeda hideout, killed seven children along with alleged militants. A military spokesman said American troops had no idea that children were there, and claimed “hoodlums” had been holding them against their will.

Afghan patience is wearing thin with such incidents. Although many still support the presence of the foreigners, Afghans these days speak of aerial bombardments and Taliban suicide-bombings as twin evils. President Hamid Karzai has expressed his frustration, but tries to appease his countrymen. “Foreign troops are like powerful drugs that cure a disease but have side effects as well,” he told a meeting in Shindand last month after fighting between Taliban and Western troops left some 50 civilians dead.

Accurate figures are difficult to come by, but Afghan aid groups estimate that foreign and Afghan forces have killed 230 civilians so far this year—as many as in the whole of last year. Since the start of 2006, some 6,000 people are believed to have died, perhaps 1,500 of them civilians. Many of the most emotive

incidents seem to have been caused by troops operating under America's Operation Enduring Freedom (OEF), which is separate from the NATO-led stabilisation mission, known as the International Security Assistance Force (ISAF). Special forces operating under OEF seek out key Taliban and al-Qaeda leaders, operating secretly, often in small groups in dangerous areas. They depend largely on air power to hit their targets and support them when they come under fire. But ISAF worries that it will bear the brunt of Afghan ire when things go wrong.

It has not been all bad news from Afghanistan. Mullah Dadullah, the Taliban military commander, who was killed in May, was the most prominent of several enemy scalps claimed by Western forces. British-led troops in Helmand province are advancing along the Sangin valley in the hope of reopening the road to the Kajaki dam, to allow the refurbishment of its hydroelectric plant. Canadian forces in Kandahar are making progress. The Afghan army has improved, and some tribal elders have turned against the Taliban.

In contrast with last year's head-on battles, the Taliban are now resorting to more suicide attacks and roadside blasts. NATO says it is a sign of weakness, but such “asymmetrical” tactics are no less deadly. The capital, Kabul, has been increasingly the target of attack. A suicide-bombing on June 17th killed 22 police-academy instructors and 13 bystanders. The former ISAF commander, the British general, David Richards, is said to have warned colleagues in London this month that NATO was making “the best of a bad job”; it was short of troops and had to compensate with heavy firepower.

However there is little prospect of more soldiers. If anything, allies could start to drop out. Some, such as Britain, Denmark and Poland are beefing up their forces. But there is uncertainty over the Netherlands, which suffered two rare combat deaths this month and will decide in August whether to extend its operation in Uruzgan after 2008. The Afghan mission is unpopular in Germany, and almost brought down the Italian government in February.

France has pulled its special forces out of OEF. President Nicolas Sarkozy has said he would also like to leave ISAF though officials say no such move is imminent. So the long hot Afghan summer is likely to bring more air bombing, whether by ISAF or OEF, and more dead civilians.

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North Korea

Expect worse

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From The Economist print edition

At home and abroad

Get article background

BETTER news, in dealings with North Korea, is rarely as good as it appears. Prospects for stripping Kim Jong Il of his bomb-making capabilities appeared to brighten with the news that inspectors have been summoned to talks next week about shutting and sealing the Yongbyon nuclear reactor that has provided him with an estimated eight to ten weapons-worth of plutonium. Already, the top American official dealing with the country, Christopher Hill, has paid a flying visit to Pyongyang. And despite pressure from China and others, the United Nations Human Rights Council has resolved not to fire the special rapporteurs looking into egregious abuses—North Korea's included. Yet the threat Mr Kim poses to his neighbours, and to his people, is no less potent.

Under a deal reached in February between North and South Korea, America, China, Japan and Russia, inspectors from the International Atomic Energy Agency were to have sealed Yongbyon by mid-April. Mr Kim was to have provided a list of all his nuclear programmes (including suspected efforts to enrich uranium—another route to a bomb). Working groups were by now supposed to be discussing the provision of energy and aid as North Korea progressively froze, disabled and eventually dismantled its nuclear capability; finding ways to normalise relations between North Korea and both America and Japan; and sketching out a new regional-security mechanism. America hopes the six can gather next month for a relaunch.

Progress is not certain. To clinch the February deal America had agreed to the release of $25m of Mr Kim's mostly ill-gotten gains that were frozen at Banco Delta Asia in Macau. But Mr Kim upped the ante: the money had to be returned through the international banking system—a difficult business—in the hope other banks would resume dealings with his regime. This week Mr Kim got his money his way—a success unlikely to soften his tactics.

Getting a plausible list of his nuclear activities will be another problem—but not the only one. Japan vows not to normalise relations, nor to help finance the six-party deal, until Mr Kim tells more about the abduction over the years of at least 17 Japanese citizens (the true number is much greater). Its prime minister, Shinzo Abe, has George Bush's assurance that America won't normalise relations either until the abductee issue is tackled.

If that resolve holds, it will cheer those trying to ensure that North Korea's appalling human-rights abuses are not overlooked in the push for a nuclear deal. A report this week by Christian Solidarity Worldwide (CSW), a British-based human-rights group, points out that alongside the Japanese and hundreds of South Koreans, others have been snatched from elsewhere in Asia, the Middle East and Europe. But it is ordinary North Koreans who suffer most: over the years an estimated 500,000 to 1m have been executed or have died from ill-treatment in Mr Kim's gulag.

The CSW report calls on the Security Council to set up a commission of inquiry, and it marshals its evidence to show that the Kim regime has a *prima facie* case to answer for legally recognised crimes against humanity—from widespread torture, to mass killing and other inhumane acts. Its persecution of Christians, Buddhists and others may also have breached the genocide convention.

But veto-wielding China is already under pressure for sending would-be escapees back to North Korea and punishment. It is unlikely to want further UN scrutiny of North Korea's nasty habits. Mr Kim is no doubt counting on that.

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Japan

The opposition's divine wind

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A perfect storm drives Shinzo Abe's desperate bid for extra time

Japan's politics

AFTER long abjuring the need, Shinzo Abe, Japan's prime minister, on June 21st extended the current session of the Diet (parliament) into early July. This means postponing scheduled elections for half the seats in the Diet's upper house by a week, to July 29th. The move smacks of desperation. Mr Abe wants the extra time mainly to rush through legislation aimed at sleazy practices in the government bureaucracy. He hopes this would convince voters that he is the tough heir to his reformist predecessor, Junichiro Koizumi, whose charisma Mr Abe sadly lacks.

The bill itself is laudable—it aims to prevent ministries from parachuting bureaucrats into well-paid retirement jobs in the industries they used to regulate, an abuse known as *amakudari*. But this summer this is not the issue bothering voters. They care about their pensions. The election has become a test of government competence, after revelations of chaos at the pensions agency. On this issue, the government is adrift. As a result, the ruling coalition of the Liberal Democratic Party (LDP) and New Komeito may lose its 11-seat upper-house majority—and Mr Abe his job.

Earlier this year a youngish politician in the opposition Democratic Party of Japan (DPJ), Akira Nagatsuma, got wind that the Social Insurance Agency had trouble matching 50m pension records to people who had paid into the public scheme. It has since come to light that a further 14m-odd records have never been entered into the agency's computer system, and hundreds of municipalities that were once responsible for such information have destroyed their records.

Mr Nagatsuma's relentless haranguing of the prime minister on the issue has paid off. Surveys suggest that support for Mr Abe's government has slumped to little over 30%. Mr Nagatsuma, meanwhile, has become a star of the television chat shows and has helped revive the fortunes of his unhappy party, whose members until recently speculated about its very survival. The pensions issue, says Takao Toshikawa, editor of *Tokyo Insideline*, a newsletter, has become the DPJ's “divine wind”, referring to the storms that saved Japan from invading Mongol fleets in the 13th century.

Mr Abe may feel that the storm is breaking unjustly over him—after all, the pensions problems date back to when records were first computerised, and were suppressed by successive governments. An ally of the prime minister, Nobuteru Ishihara, the LDP's deputy secretary-general, says the LDP will remind voters that even DPJ leaders are implicated: the party's deputy president, Naoto Kan, was the country's health-and-welfare minister a decade ago. It matters not. Mr Abe's current emphasis on stamping out *amakudari* suggests a tin ear for the public mood. Voters are anyway underwhelmed by his penchant since taking office for pursuing pet right-wing themes—such as changing Japan's pacifist constitution and instilling more patriotic education in schools—over issues of livelihood.

With a handsome majority in the Diet's lower house, the LDP coalition—and Mr Abe—could in theory muddle on without an upper-house majority. But Mr Toshikawa predicts that Mr Abe will remain LDP leader and prime minister only if the party keeps its majority—if it does not, he says, Mr Abe will resign, perhaps with a view to running again in future. In this scenario, Taro Aso, the foreign minister, is perhaps the favourite to succeed, with Sadakazu Tanigaki, a former finance minister, also a likely contender. Both lead small party factions and ran for the leadership last year. A truly awful result for the LDP, on the other hand, might produce a caretaker prime minister and an early general election.

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Iraq

Is the surge going to fizzle?

Jun 21st 2007
From The Economist print edition

AP

The American military surge into Baghdad will fail unless Iraq's Shia politicians make much bigger efforts to embrace their Sunni compatriots

Get article background

THE surge of extra American troops into Iraq's battered capital, which began in mid-February, is at last complete. An extra 21,000 of them are now there, bringing their tally in Baghdad up to 31,000-plus and nationwide to 155,000, the highest troop level since late 2005. Senior American officers say that a third of Baghdad now has a degree of “normalcy”; a third, especially those districts with a sectarian fault-line running through them, is still very violent; and a third is in flux.

Once the Americans have secured Baghdad, so the theory goes, they hope to tackle the so-called “belts” just outside Baghdad, in particular the nearby mainly Sunni towns to the south—Mahmudiya, Latifiya and Yusufiya—encompassing a “triangle of death” where al-Qaeda has been active in an area straddling a blurred line between Sunnis and Shias. By stemming the tide of a sectarian war, the Americans still hope to buttress Iraq's Shia-led government while giving it a last chance to co-opt a serious Sunni component.

The top American general in Iraq, David Petraeus, who is to report on progress to the American Congress in mid-September, cautions against impatient expectations. He is likely to ask for more time. The commonest guess is that the surge will last at least until next spring and perhaps into the early summer. This week General Petraeus said that counter-insurgency operations sometimes last “nine or ten years” before they bring success—yet it is highly unlikely that a new American administration would consider such a timescale.

In any event, though it is still too early to make firm predictions about the surge, the overall level of violence in Iraq has so far not abated. The surge's early results have been mixed. While mayhem in one part of Iraq subsides, it tends to increase in others. This week the Americans began a big offensive, with 10,000 troops sweeping through Diyala, a mixed Sunni-Shia province north of Baghdad, where al-Qaeda has lately been most active. Meanwhile, militias loyal to a radical Shia cleric, Muqtada al-Sadr, battled this week against the (mainly Shia) police in Nasiriya, south of Baghdad, with at least 35 people killed.

The appalling cycle of Sunni suicide-bombs designed to kill as many Shia civilians as possible shows no sign of ending either. This week a suspected al-Qaeda bomber drove a lorry into a Shia mosque in Baghdad, killing at least 78 people, the second worst attack of that kind since the surge began; in mid-April, a similar bomb killed 140 people in a Baghdad market. Last week two minarets on a much-revered Shia mosque in Samarra, whose destruction in February last year set off the wave of sectarian violence that is still going, were attacked. Such events make it hard for the Americans to restrain Shia militias from wreaking random revenge.

Plainly, a civil war is in full swing. On just one day earlier this week, 111 civilians were reported to have been killed across the country, with 30 corpses in Baghdad showing signs of torture. But the civil war is multi-layered. Iraq is not likely to divide neatly into three parts—Sunni Arabs in the centre and west, Shia Arabs in the centre and south, Kurds in the north. Territorial lines are fuzzy; the fighting is becoming messier, with far more groups fighting against each other than before. Violence between Sunnis, especially between al-Qaeda-linked groups and homegrown Sunni insurgents, is sharply up; fighting between competing Shia groups is getting bloodier still. When the British leave Basra, as they may do within a year, a three-way battle there among Shias is likely to erupt.

A splash of early hope

The surge in Baghdad had some initial success. The sectarian killings, mainly by Shia militias running rife through the Sunni districts of western Baghdad and in beleaguered Sunni enclaves on the eastern side of the Tigris river, dropped sharply in the first two months of the surge. The number of murders fell to about a third of the previous horrendous rate, from around 1,400 in January to some 500 in March and April, as the Shia militias, mainly the Mahdi Army (Jaish al-Mahdi, in Arabic) that is loyal to Mr Sadr, stood down. But in the past few weeks, the killing rate has begun to rise again, to 700 in May.

The Shias, broadly speaking, have continued to tighten their grip on Baghdad. The Sunnis may be down to 15% of its population. They are still being squeezed in a Shia pincer from the north-west and south-west. Nearly half of the Sunni professional middle class, which often lived in mixed areas, is reckoned to have left Iraq for Jordan, Syria and elsewhere. Some 2.2m Iraqis out of a population of 27m are now reckoned to have fled Iraq, while the UN estimates that another 2m have been internally displaced.

Sunni Arabs are divided too. Monitors of their insurgent groups have counted more than 70 of them. In

general, they have become more Islamist. Some 5-10% of their fighters may be foreign jihadists. The Americans have taken some heart from signs of division. Last week two leading groups, the Islamic Army in Iraq and the 1920 Revolution Brigades, clashed bloodily with al-Qaeda in Iraq, as the leading foreign-led jihadist group calls itself, in the Sunni suburb of Ameriya in western Baghdad. The Islamic Army and other groups had earlier lambasted al-Qaeda in Iraq, which supports Osama bin Laden, for murdering their cadres and for suicide-bombings against Shia civilians.

The Americans have also had some success in Anbar province, west of Baghdad, where a new Anbar Salvation Council of Sunni tribal sheikhs is leading a campaign against al-Qaeda, which may have overreached itself in the area. Last year the Americans suffered an average of 25 attacks a day by insurgents around Ramadi, the main town; this year, say the Americans, the daily figure has been four. In their most risky venture to date, they have been arming Sunni insurgents against al-Qaeda, and say they want to try the same tactic in Diyala. It is a big gamble. The leader of the Salvation Council, Abu Sittar al-Rishawi, is not widely trusted, and the Iraqi government is wary of schemes to arm groups that have recently been fighting against it.

In theory, the Americans are putting faith in Iraq's own police and army to take over as soon as possible. In fact, though joint Iraqi-American operations are becoming more common and effective, the Iraqis are far from being able to stand on their own feet. The police, especially, have been heavily infiltrated by Shias bent on sectarian cleansing of Sunnis and by criminals who specialise, among other things, in kidnapping. Of 188,000 police trained by the Americans, no less than 32,000 have been lost—through death (8,000-10,000), injury (similar numbers), desertion (5,000-plus) and other reasons. The 137,000-strong army is better, and less patently sectarian. But it is not yet capable of fighting alone against the insurgents.

General Petraeus candidly admits that the surge will be in vain unless the breathing space his troops are trying to create is used by the Shia-led government to embrace a wider range of Sunnis, offering concessions on—among other things—the constitution and the sharing of oil. Two factors are making this hard if not impossible to achieve. First, the government of Nuri al-Maliki seems incapable of conciliating the Sunnis. Second, no effective Sunni interlocutors are in the offing.

The government of national unity is no such thing. It is a group of factions, each grabbing a share of the spoils. The parties that comprise it lack leaders with clout or vision. Mr Maliki's Dawa party lacks a militia. Abdul Aziz al-Hakim, leader of the renamed Supreme Islamic Iraqi Council, previously the Supreme Council for the Islamic Revolution in Iraq (SCIRI), has the more disciplined Badr brigades but is very ill. Mr Sadr, probably the most powerful of the Shia leaders, no longer has representatives in the government; and his control over the 50,000 or so men of the Mahdi Army has always been questionable.

Why the surge may fail

Moreover, if the Americans eventually agreed to a multilateral framework to help them disentangle themselves from Iraq, be it under the aegis of the UN or through a regional “contact group” made up of all Iraq's neighbours, Mr Maliki would probably have to resign, for Sunni leaders outside Iraq denounce him as a sectarian bigot. A touted replacement is Adel Abdul Mahdi, a SCIRI man who is one of Iraq's two vice-presidents. A former Iraqi prime minister, Iyad Allawi, a secular-minded Shia who was once a Baathist, and the other vice-president, Tariq al-Hashemi, a Sunni, have been accused by Mr Maliki of plotting to oust him.

The Sunni insurgents are equally fractious, but may be coalescing around four or five main groups, with the now rather marginal Muslim Scholars' Board, an array of several thousand Sunni clergymen, occasionally voicing collective demands through a number of self-appointed spokesmen. But no leader speaking with authority for the Sunnis and with backing from insurgents has yet emerged.

Last week America's defence secretary, Robert Gates, was in Baghdad, assessing the surge. “Our troops are buying them [the Iraqi government] time to pursue reconciliation,” he said. “Frankly, we are disappointed with the progress so far.” General Petraeus's masters in Washington know that if Mr Maliki cannot do better, America's surge—and the increased loss of American life that it is already entailing—is doomed to fail. It is too soon to be sure. But it is inching that way already.

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Sudan

The oil factor

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The oil may not be enough to protect Sudan's government for ever

FEW countries owe so much, over so little time, to the magic of black gold as does Sudan. From near-bankruptcy in the early 1990s, Sudan has trebled its GDP in the past seven years thanks to the discovery and exploitation of oil; it is now one of Africa's fastest-growing economies. Sparkling office blocks are beginning to crowd the skyline of Khartoum, the capital. Oil has also brought vital political dividends. China, which buys about 80% of Sudan's oil exports, has proved a loyal friend at the UN when Sudan has been criticised for murder and mayhem in its Darfur region.

With so much resting on oil, the government of President Omar al-Bashir likes to talk up the industry's prospects. Production now stands at 480,000 barrels a day, with proven reserves estimated at 1.6 billion barrels. The bullish oil minister, Awad Ahmed al-Jaz, often says he expects output to rise to about 1m b/d next year.

But this scenario may be too rosy. The country's original and most reliable oilfields, which produce valuable low-sulphur crude marketed as Nile Blend, are maturing. Their output dropped from a peak of 300,000-odd b/d in early 2005 to 254,000 b/d in the first quarter of this year. Prospects for pushing production back up using better oil-recovery techniques are poor, and this dip will be only partly offset by output from new fields that have begun to be exploited in Sudan's south (see map).

For though oil from a number of new fields began to flow last year, there have been setbacks. Much of the new oil is of inferior quality, selling for less than a third of average international prices. Sudan has some scope to raise production from these fields, but it has less incentive to do so. So exploration for further reserves (and even for offshore gas) is being conducted across the country. In recent months, a flurry of new oil concessions have been awarded.

But many of them have been granted to small and inexperienced operators, often partners of local companies tied to the government. A consortium exploring one southern block is made up wholly of Sudanese firms. A new concession in north Darfur was also given last year to six companies from Arab countries. In both, a substantial stake is held by Hi-Tech Petroleum Group, a company set up by a former

oil minister, Abdel Aziz Osman. This firm, in which a brother of President Bashir has a senior post, was recently named as a target of new American sanctions against Sudan.

Many of the big Western oil companies are being scared off by the prospect of more sanctions and humanitarian divestment campaigns over Darfur. In 2003 a Canadian firm, Talisman, was forced out by pressure from campaigners. Similar reasons were cited for the departure of the Cliveden Group, a Swiss firm, last year. There is speculation that Marathon, an American oil company, may dispose of its 32.5% share in Block B, in southern Sudan.

Without the big internationals' wealth and experience, smaller local and regional players may struggle. If, for example, they have to build export facilities, the lengths of pipelines in a country the size of western Europe are daunting. And any company wanting a secure export route in case the southern half of the country chose to secede in a referendum promised in 2011 would have to lay a pipeline to the Kenyan port of Lamu—another huge challenge.

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Saudi Arabia

Vicious about virtue

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The religious police may need policing

IT IS not easy being a religious policeman. The 5,000-odd agents of Saudi Arabia's Commission for the Promotion of Virtue and Prevention of Vice (commonly referred to as the *Haya*, or Commission) carry a heavy burden of responsibility. Not only must they do things such as make sure shops close for the five daily prayers, enforce modesty of attire and strict separation of the sexes in public, prevent sorcery, and round up bootleggers and drug dealers. They must also impose summary new bans, such as recent ones against trading in pet cats and dogs in the port city of Jeddah, and against barbers offering Western-style haircuts that “imitate unbelievers” in Medina, Islam's second holiest city.

Lately, their lot has grown harder. A spate of public complaints about the religious police's excessive zeal, exacerbated by press reports of several citizens dying while in their custody, has put the commission on the defensive. At least one Saudi has dared, for the first time in the kingdom, to demand compensation in a civil suit against the *Haya*. She charges that agents accosted her and her daughter outside a shopping mall, accused them of being underdressed, dragged their driver from his seat and, while commandeering the car to drive the accused women to vice-squad headquarters for questioning, drove so recklessly that they crashed into a lamppost, injuring the passengers. On internet chat sites and even in newspaper columns, some writers have even suggested that the Commission be abolished.

Things have not looked so bad for it since 2002, when its agents were widely reported to have blocked exits to a blazing girls' school, on the ground that the fleeing pupils were improperly attired. Fourteen girls died as a result. Afterwards, tiresome rules were imposed on vice-squad agents. They were told to wear badges while on duty, discouraged from carrying sticks, and required to surrender all apprehended suspects to ordinary police. Many even had to endure training sessions in how to be polite to the public.

Yet by most accounts those rules have not proved too restrictive. The *mutawaeen*, as the agents are known, can count on many unofficial helpers to tip them off. The regular police generally sympathise with their fellow law-enforcers and can be conveniently slow to arrive when called to pick up suspects. *Haya* supporters have fended off harsher legislation that would have required *mutawaeen* to wear uniform, as well as calls for their duties to be defined within specific limits.

Some Saudi liberals hope that renewed pressure for reform will bear fruit. They note that, over the decades, things once banned, such as riding bicycles or smoking cigarettes, have come to be overlooked. Yet the commission has good reason to be confident of its future. For one thing, its mission of promoting virtue and preventing vice, while perhaps not well defined, remains a scriptural Islamic injunction. In a state that proclaims the Koran as its constitution, this cannot easily be dismissed. For another, the *Haya*'s existence helps solve two pressing social problems: high unemployment and a very large surplus of graduates in religious studies.

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Tanzania

Boffins for Africa

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Can clever billionaires help Africa?

A CLUTCH of billionaires and anti-poverty campaigners gathered this month in the Tanzanian bush to mull over Africa's development. The meeting was organised by an outfit called Technology, Entertainment, Design, better known as TED, an American alternative to the stuffier Swiss-based World Economic Forum. TEDsters, including the heads of some of the world's largest technology firms, aim to use “the power of ideas” to help Africa's poorest.

But the boffins sometimes baffled the layman. A Ghanaian scientist, Kwabena Boahen, showed how his researchers were working to “put Africa into the next generation of computers” by getting the brain's neural circuitry to produce something more beautiful, supple and resilient—indeed, “more African”.

An American mathematician, Ron Eglash, got a standing ovation for his thesis on “African fractals”—that is, geometric shapes sub-divided into parts, each a reduced copy of the original. African societies, alone in the world, apparently use patterns of “self-organising fractals” in their games, dress and architecture. Everyone bar a few mathematicians seemed puzzled—yet seemed to agree he was on to something big.

Spencer Wells, a geneticist, laid out new research suggesting that all humanity descends from an African couple only 60,000 years ago. *Homo sapiens*, he said, fell to as few as 2,000 people, in southern Africa, before migrating up and multiplying through the “meat locker” of east Africa's savannah and beyond.

A discussion about how mobile phones can tackle African poverty was more down-to-earth. Some agreed that they will be “more important than the car” in bringing Africans into the global economy. Business over the phone, such as language lessons and secretarial services for businesses in Europe, may take off, with salaries paid in phone credit.

John Gage, head of research at a Californian firm, Sun Microsystems, which invented the Java software that most mobile phones run on, says he wants to put new-generation mobile phones into the hands of every African village leader, who in return would have to text information about the state of his clinic, school, roads, and so on. It would be pasted onto a satellite map of Africa and be put on the internet, a bit like Google Earth, so anyone could zoom in and see at a glance the state of a district in, say, northern Congo. Making governments' performance instantly verifiable, they would have to be more accountable.

There were notably few of the hard-knuckle African politicians who often run the interior or defence ministry or act as kingmakers, sometimes bankrolling rotten presidents. But the anti-poverty TEDsters are determined to be hopeful. “We're in midfield, we've got the ball, we've just got to find a way past the defence,” explained Bono, an Irish singer-cum-TEDster.

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Zimbabwe

Rumblings within

Jun 21st 2007 | JOHANNESBURG
From The Economist print edition

More dissent in the ruling party and in the army does not mean the end is nigh

AFP

Can he trust his soldiers any more?

Get article background

THE political temperature in Zimbabwe may be rising again. Last week seven men, including serving and retired soldiers, appeared in court, accused of plotting a coup to overthrow President Robert Mugabe. This week, under South African stewardship, a delegation from Zimbabwe's ruling party met both factions of the opposition Movement for Democratic Change (MDC) in Pretoria, South Africa's capital. In March leaders of the 14-country Southern African Development Community had asked Thabo Mbeki, South Africa's president, to facilitate such discussions to prepare for elections in Zimbabwe next year. Does this mean Mr Mugabe is on his last legs?

Not yet. But Mr Mugabe may be rattled by discord within the armed forces, albeit apparently at quite a low level. The alleged plotters say they were only trying to create a new political party. But discontent in the military rank and file, badly hurt by the economic meltdown, is rising.

Though the top brass is a lot better off, the armed forces may at other levels be splitting along the same fault-line that runs through Mr Mugabe's ruling Zanu-PF party. Some Zimbabweans say that Emmerson Mnangagwa, a former speaker of Parliament and long-time security minister, and Solomon Mujuru, the vice-president's husband and a former army head, may be linked to the alleged plot, though this may just be speculation. Mr Mnangagwa strongly denies involvement.

The opposition has laid out a road map towards the elections due next year. It wants to scrap laws curtailing freedom of the press and of assembly. It also wants new electoral rules, reform of the constitution and an end to state-sponsored violence and intimidation. And it wants the 3m or so Zimbabweans who have left the country to be allowed to vote. For its part, the ruling Zanu-PF wants sanctions lifted and Britain to help with land reform. This week the two sides apparently agreed to an agenda for discussion.

Yet, at the same time, Mr Mugabe's government is pushing controversial laws through parliament. One allows for phone calls and e-mails to be monitored. Next month the ruling party is expected to table constitutional amendments that would tighten its grip on power. For instance, Parliament, rather than the Zimbabwean people in a direct vote, would pick a new president, were the incumbent to step down between elections. Another proposed change would boost parliamentary representation in rural areas, where Zanu-PF has its base, and give fewer seats to the towns, where the MDC predominates.

Meanwhile, inflation is hovering around 4,500%, and eight Zimbabweans in ten do not have formal jobs. Some aid agencies say the government may fall within six months or so, as the economy collapses, but they have been saying so for some time. Though the formal economy is in dire straits, Zimbabweans have learnt to cope in other ways, mainly by relying on the black market and getting help from friends

and family abroad. The UN's World Food Programme says that by next year 4.1m Zimbabweans may need food handouts, otherwise they may starve.

“African economies, like old soldiers, do not die,” says Arthur Mutambara, the leader of a breakaway faction of the MDC whose passport has just been confiscated. At least the grimness of the economy gives Zimbabwe's neighbours some levers: they can dangle promises of economic help to nudge negotiations along. But a small elite connected to Mr Mugabe and Zanu-PF has vested interests in the current system, where price controls and an artificial exchange rate offer juicy possibilities for making fortunes. It is not at all clear that they would risk a settlement that might see them booted out of power.

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Correction: Egypt

Jun 21st 2007
From The Economist print edition

Owing to an editing error in our report last week on Egypt's senate election, we said that “a committee in the American Congress voted to make its military aid to Egypt of $200m conditional on human-rights reform”. We should have said that “the committee voted to condition $200m of its annual $1.3 billion in military aid on human-rights reform”. Sorry.

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France

The reforming juggernaut

Jun 21st 2007 | PARIS
From The Economist print edition

Reuters

A modest electoral setback for Nicolas Sarkozy will not derail his reform plans

Get article background

PRESIDENT Nicolas Sarkozy headed to the European Union summit this week with a bit less of the usual spring in his step. Barely a month after taking office, he has suffered his first political set-back. In the second round of the French legislative election on June 17th, he won a smaller majority than had been predicted.

Mr Sarkozy's UMP party took 313 of the 577 seats in the National Assembly, down from 357 in 2002. Even with the 22 seats of his new centrist allies, this falls short of the 400-plus landslide the polls had forecast. The biggest upset was the defeat of Alain Juppé, ecology minister and number two in the new government, who promptly resigned. The Socialist Party and its close allies boosted their tally from 149 to 212 seats. As expected, smaller parties were crushed. François Bayrou's new MoDem party got three seats and Jean-Marie Le Pen's National Front none at all. Only the Communists managed a more honourable 15 seats.

The surprise result was due in part to a bungled message from the government of François Fillon, Mr Sarkozy's prime minister, over plans to finance cuts in payroll taxes by an increase in VAT. The Socialists managed successfully to spin this as an “unfair” 5% price hike. At the same time, voters have sent a broader message of caution to their new president: yes, we back you and your reforms, but we want some countervailing force too. The Fifth Republic makes the presidency extremely powerful. And unlike most predecessors, the hyper-energetic Mr Sarkozy seems to want to put his fingers into all kinds of domestic dossiers, from schools to ecology.

Might the results hamper Mr Sarkozy's reform plans? Besides prompting a rethink over how soon it may implement its VAT plans, the answer is no, for three reasons. First, Mr Sarkozy still controls 60% of parliamentary seats. This is only the fourth time under the Fifth Republic that a single party has won an absolute majority. It is also the first time since 1978 that a ruling party has been re-elected.

Second, Mr Sarkozy still has a strong mandate. Arguing that a president needs an explicit mandate to bring about genuine reform, he spelled out in his campaign exactly what he intended to do. Voters have now backed those plans four times in less than two months.

Third, Mr Sarkozy's strategy is to create a broad-based consensus for reform via an unusually inclusive government. The 12 junior ministers he appointed this week confirm this. He has brought in Rama Yade, a black (female) politician, as a junior foreign minister for human rights. He has chosen Fadela Amara, a campaigner against violence towards women in the *banlieues*, who is of North African origin, to work on cities. And he has added Jean-Marie Bockel, a rare Blairite Socialist, to his collection of left-leaning ministers.

Mr Sarkozy has also consolidated his team of economic liberals by putting Christine Lagarde in the finance ministry. She is the first woman ever to hold such a job in a G7 country. Briefly farm minister, Ms Lagarde is a former global head of Baker & McKenzie, a Chicago-based law firm, and, partly thanks to her familiarity with “Anglo-Saxon” business culture, is a popular face for France abroad. She replaces Jean-Louis Borloo, who moves to ecology after Mr Juppé's resignation. Hervé Novelli, a former lieutenant of the liberal Alain Madelin, goes to trade.

In a speech to his freshly elected deputies this week, Mr Sarkozy argued the case for pressing ahead fast, declaring: “Everything I've promised to change, I will change.” Already, four draft laws are in the works. They will go to an extraordinary session of parliament in July, a time when deputies are usually packing their holiday bags. One will tighten sentences for young repeat offenders. Another will give sclerotic universities more autonomy. A third obliges unions to start negotiations over the guarantee of minimum service on public transport even during strikes; Mr Sarkozy has given unions and transport bosses until September to reach a deal.

The fourth is a €11 billion ($15 billion) fiscal package, aimed at cutting taxes on labour and companies, to encourage job-creation and discourage outsourcing, and to persuade the French to spend more time at work and less on welfare. One plan is to exonerate from social charges and income tax all time worked over the 35-hour week. Another is a new “tax shield” to cap at 50% of income any household's overall tax burden. But a few ideas are driven more by political than economic logic, such as a new tax break on mortgage-interest payments, which may simply inflate house prices, and cuts in inheritance tax.

Mr Fillon insists that he will finance these measures by reducing the civil-service headcount and introducing small charges for health care. He has promised to replace only one in two retiring bureaucrats, and to merge overlapping departments. It will be a tough task. The public finances are already strained, and Ms Lagarde, who will ultimately control spending, is not an elected politician. “I find it hard to believe that the whole package will be financed by spending cuts,” says Eric Chaney, chief European economist at Morgan Stanley. He reckons the result will be a net fiscal stimulus of 0.3% of GDP in 2008, and he has raised his budget-deficit forecast from 2.7% to 2.9% of GDP.

Despite the Socialists' extra seats, opposition in parliament will be weak, partly because the party has to sort out its leadership (see article). But that may not be true of the streets. The unions fear that the right to strike will be undermined by the minimum-service plan. Some universities fret about the creation of a two-tier system. In July, employers and unions will begin tough six-month negotiations over labour-law reform, including simplification of job contracts, a tightening up of unemployment benefit, and the opening up of union representation beyond the big five.

It adds up to an ambitious agenda, but it is also one that France cannot afford to fail. Nicolas Baverez, an economic commentator who is close to Mr Sarkozy, puts it darkly: “This is the last chance France has to carry out reform peacefully.”

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The French Socialists

Affairs of state

Jun 21st 2007 | PARIS
From The Economist print edition

The star couple at the top of the Socialist Party splits up

Get article background

THE public interest stops at the bedroom door. That has long been an unspoken rule of French politics. President François Mitterrand kept his mistress and their daughter hidden from voters for years. But what happens when both halves of a couple are in the public eye? That was the dilemma for Ségolène Royal, defeated Socialist presidential candidate, whose partner, François Hollande, happens to be the Socialist Party's boss.

This week, in a highly unFrench declaration, Ms Royal confirmed rumours that have circulated for some time: she and Mr Hollande have separated. “I suggested to François that he should live his life separately, and he accepted,” she told French radio. “We no longer live together.” As recently as March, she had written that “yes, we are still together and yes, we still live together.” Was it all a charade? Not at all, she insists: she put her troubles to one side during the campaign, to protect the pair's four children.

The French are torn about the new confessional tendencies of their political leaders. Despite the creeping invasion of American-style celebrity politics, the media no longer discuss President Nicolas Sarkozy's relationship with his wife, Cécilia. This week the news of Ms Royal's separation occupied—uncharacteristically—the entire front page of *Le Parisien*, a mid-market daily, on a day otherwise dominated by the country's parliamentary elections.

Have the French embraced what they call the peopleisation of political life? In a poll this week, 83% said that Ms Royal's announcement was not useful information but “a strictly private affair”. Ms Royal's decision was motivated less by media pressure to come clean, as might have happened in tabloid-laden Britain, than by the need to clarify an awkward dynamic at the heart of the Socialist Party—in particular her desire to take the top job from Mr Hollande.

Mr Hollande says he will step down as Socialist leader in 2008. Ms Royal plans to stand for the post. Amid the recrimination after her presidential defeat, the Socialist Party was growing impatient. “I've had enough of political life turning around the life of a couple,” said Manuel Valls, a rising star in the party. With the news of the pair's split, the air has cleared for the succession battle, and private lives are safe again—at least for now. A German media group, Axel Springer, has announced that it will launch a French version of *Bild*, its German tabloid, by the end of the year.

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Eastern Europe's politicians

Doctor Who?

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From The Economist print edition

Few of Europe's ex-communist countries have strong leaders

OPTIMISTS hope that Valdis Zatlers, an orthopaedic surgeon, will grow into his new job as Latvia's president. But even his doughtiest supporters doubt that he will fill the exquisite shoes of his predecessor, Vaire Vike-Freiberga, a steely-minded émigré polyglot who ushered her small Baltic country into both the European Union and NATO.

Dr Zatlers was at least good at something: he admits collecting thousands of dollars in tips from grateful patients, on which he is now hurrying to pay tax. But he has no experience of statecraft or even of public life. His sole asset is the backing of Latvia's political chieftains, who foisted him on the country in a secret backroom deal. That may be unfortunate for Latvia. But the sadder aspect of the story is that the doctor fits so neatly into the region's increasingly dull political landscape.

Post-communist leaders were once big, internationally known figures. Lech Walesa of Poland and the Czech Republic's Vaclav Havel remain world famous. Poland's Aleksander Kwasniewski was widely admired abroad for his diplomatic skills. Reformist politicians such as Estonia's Mart Laar, Russia's Yegor Gaidar and Slovakia's Mikulas Dzurinda wowed the policy wonks with their zealous embrace of flat taxes and free-marketry.

Now things are different. Only two leaders really stand out: the presidents of Russia and Estonia. Russia's Vladimir Putin has many critics, but when he speaks, people listen. Estonia's president, the Swedish-born and American-educated Toomas Hendrik Ilves, now speaks up for all the Kremlin's former European satellites. The brainy Mr Ilves is the only senior politician in the region with real experience of Brussels (he was once a member of the European Parliament) and Washington, DC. He has the ear of George Bush: both are keen farmers (although on rather different scales), and both like the same make of Stihl brush-cutter.

Elsewhere, foreign statesmen find few weighty senior people to engage with. Ukraine's politicians are enmeshed in seemingly endless and exasperating clan warfare. Romania's president, Traian Basescu, is an ardent Atlanticist and European, but is bogged down in a spat with his country's old-guard government. Poland's ruling twins are refreshingly honest, but prickly and provincial. Vaclav Klaus of the Czech Republic enjoys talking but not listening. Mikhail Saakashvili of Georgia presides over rapid growth and reform, but even friends find that he is better when taken in small doses.

A lot more typical are such political leaders as Slovakia's prime minister, Robert Fico, or Hungary's Ferenc Gyurcsany: wily political operators with good business ties and a populist touch. They show little interest in restarting reforms or in foreign policy. Most other leaders in the region are either past it or a bit dull.

Yet central and eastern Europe desperately needs strong government to catch up with the continent's older democracies. Unreformed public services gobble money and produce poor outcomes. The demographic decline in prospect, especially in the poorest countries, is scary; emigration is now making it worse.

The Kremlin's habitual divide-and-rule tactics also tend to work best on weak, opportunist leaders. That may prove to be a problem in Latvia, where the country's business barons are unnervingly keen to show they can work with the Russians.

When western Europe was led by burnt-out leaders such as Jacques Chirac, Silvio Berlusconi and Gerhard Schröder, the contrast was less striking. But the arrival of Angela Merkel in Germany, Nicolas Sarkozy in France and (next week) Gordon Brown in Britain casts a harsh light on the steppe to the east. It would be nice if new impressive politicians were climbing the ladder there. Sadly, the antics of the current lot seem not to inspire energetic newcomers, but to deter them.

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Malta and immigration

Tidal wave

Jun 21st 2007 | VALLETTA
From The Economist print edition

A small European Union country fears it may be swamped by migrants

NO EVENT has been awaited in Malta with greater eagerness than the start of Operation Nautilus II. After a pilot scheme last year, the hope was that patrol boats, helicopters and aircraft from all over the European Union would converge on the seas between Malta and Libya, to keep at bay the tide of migrants surging into the EU's smallest and most crowded member.

Most of the migrants come from the Horn of Africa. They leave Libya on overloaded, unseaworthy vessels. A lot die before reaching safety (at least 12 bodies were recovered this week). The perils they face, and the attitudes of some Maltese, were laid bare last month, when 27 migrants were found clinging to tuna pens attached to a Maltese-owned vessel in international waters. They had been there for three days. The owner refused to let them on to his boat, claiming they might seize it.

Yet if there is a solution to this problem, Nautilus II is not likely to supply it. Italy is withholding its co-operation. The Italian interior minister, Giuliano Amato, argues that the entire exercise is pointless unless it involves Libya, which has not even replied to the EU's invitation. Frontex, the EU agency in charge of the scheme, cannot say if any other country will take part.

Without Libya's help, Frontex's patrols will be unable to send migrants back. Instead, the agency's spokesman says, they will be “informed that what they are doing [is] illegal and given life-jackets”. If their vessel is in distress, they will be rescued and taken to the nearest safe place—perhaps Lampedusa or Pantelleria, two Italian islands, but often Malta itself. Far from deterring migration to the island, Nautilus II could end up making it faster and safer.

Anti-immigrant feeling is running high in Malta. On June 9th a new far-right party, Azzjoni Nazzjonali, appeared. The solution of its leader, Josie Muscat, is to ship new arrivals “to the edge of our territorial waters and say ‘We're sorry, but this is where our responsibility stops'”. His views are extreme, but both mainstream parties agree that Malta is at bursting-point. “The numbers who came to Malta last year are equivalent to half our birth rate,” says the prime minister, Lawrence Gonzi. “There is no way Malta can absorb them.” His answer is to get other EU countries to help with the repatriation of migrants who are

refused refugee or similar status; and to share out what he calls the “excess numbers” of those who do.

What few in Malta acknowledge is that its immigrants are a consequence of EU entry three years ago. With few exceptions, those who land in Malta want to get to Italy or farther north. Until they joined the EU in 2004, the Maltese did little to stop them pursuing their journey (often with travel documents valid only in Maltese airspace, issued by a Roman Catholic church group). But EU entry stopped that by imposing the so-called “Dublin system”, which puts responsibility for asylum-seekers on the country where they first arrive.

Malta may be densely populated (three times more than the Netherlands), but its immigrant population is still tiny. Officials say they have no precise total, but their estimate is below 3,000—fewer than the commonly touted figure of 7,000 arrivals since 2002, and less than 1% of the island's 400,000 population. Malta's EU partners could be forgiven for feeling that, as in other respects, the union's southernmost member is just catching up with them.

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Turkey's Kurds

Guns and votes

Jun 21st 2007 | BATMAN AND DIYARBAKIR
From The Economist print edition

Pre-election tension is rising among the Kurds of Turkey's south-east

Get article background

A GOLD-PLATED pistol in one hand, worry beads in the other, Hazim Babat sits at the foot of the mountain range that separates Turkey from Iraq and contemplates war. He is the chieftain of the Babat clan, which is fighting alongside the Turkish armed forces against the Kurdistan Workers Party (PKK) separatist guerrillas.

For years the Babats hunted PKK militants in Iraq with the help of *Peshmerga* warriors from the Kurdistan Democratic Party (KDP) from northern Iraq, led by Massoud Barzani. “The PKK slaughtered our women, our babies, they are going to pay the price,” vows Mr Babat.

But times have changed and the Kurds are beginning to unite, wherever they live. Nowhere is this truer than in northern Iraq where, with American support, as many as 4m Kurds have come closer to achieving full-blown independence than ever before. Mr Barzani, who runs the Kurdish-controlled enclave, declares that the days of Kurdish fratricide are over. He refuses to let Turkish soldiers overrun his territory in order to attack the PKK. “Turkey's real problem”, Mr Barzani opined recently, “is that the Kurds exist at all.”

Despite its repeated calls for cross-border action against the PKK, the army's real target may be the quasi-independent Kurdish state in northern Iraq. The generals see an independent Kurdish state as an existential threat because it would stoke separatist passions among Turkey's 14m-odd Kurds. They are “willing to prevent its emergence no matter the price”, asserts Ibrahim Guclu, a veteran Kurdish politician. “Yet the harder they push, the closer together they drive the Iraqi and Turkish Kurds,” he adds.

Mindful of America's opposition and of Kurdish votes, Turkey's mildly Islamist prime minister, Recep Tayyip Erdogan, has ruled out any incursion, at least before the general election on July 22nd. Yet Turkish forces continue to mass along the Iraqi border. The beefed-up army presence is palpable in Sirnak, one of three border provinces in which no-go “security zones” have been declared. Turkish soldiers in armoured personnel-carriers point guns at passers-by. Attack helicopters clatter overhead. In the regional capital of Diyarbakir, your correspondent counted no fewer than nine F-16 fighter jets screeching towards Sirnak within the space of 20 minutes. The PKK is hitting back, murdering soldiers and civilians alike.

Ayla Akat, a human-rights lawyer who is standing for election in Batman for the pro-Kurdish Democratic Turkey Party (DTP), concedes that the violence is fuelling anti-Kurdish feelings throughout Turkey. She points to the attempted lynching this month of two Kurdish seasonal workers in the western province of Sakarya. Yet if the government were to accept the PKK's demands to ease restrictions on the Kurdish language, offer amnesty to PKK fighters and allow their leaders to seek asylum in Europe, “the Kurdish problem would be solved”, she says. “Is anyone talking about independence?”

In 2005, emboldened by the European Union's decision to open membership talks, Mr Erdogan explored a possible deal that would accommodate the Iraqi Kurds too. But he was forced to back off under pressure from the army. In the same year Mr Erdogan became the first Turkish leader ever to admit that the state had made “mistakes” in dealing with the Kurds. His words cemented his Justice and Development (AK) Party, whose Islamic credentials play well with millions of pious Kurds, as the DTP's main rival in the south-east.

“My people are going to vote for Erdogan because he wants the European Union, and EU membership is the panacea for separatism,” says Cemil Oter, a tribal leader who has lost 40 men to the PKK. But hopes of membership are fading as EU bigwigs, led by France's new president, Nicolas Sarkozy, lobby against Turkish entry. EU-inspired reforms that helped to win Turkey its prized date for membership talks are being quietly rolled back.

The effects are being felt in Diyarbakir, where a local mayor and his entire council were barred from office last week for using Kurdish as well as Turkish to communicate with their constituents. Abdullah Demirbas had already annoyed the authorities by erecting a monument in memory of Ahmet Kaymaz, a Kurdish lorry driver, and his 12-year-old son, who were gunned down outside their home in the town of Kiziltepe in 2004 on the grounds that they were “terrorists”.

All four members of the special forces who were implicated in the killings were exonerated by a court in April, proving that “there is rarely justice for the Kurds”, says Tahir Elci, a lawyer who defended the Kaymaz family. Mr Elci is now facing up to three years in prison for criticising the court. Meanwhile, reports of torture have risen sharply, because new regulations allow detainees to be denied access to a lawyer during the first 24 hours of interrogation by police.

All these things help to swell PKK ranks. The trouble is that the rebels' new tactics—setting off landmines and planting explosives—have caught the army off guard. Abdullah Gul, the Turkish foreign minister, revealed last week that security forces seized two tonnes of plastic explosives smuggled by the PKK from Iraq in 2006 alone. Mr Gul said that “making compromises over democracy in the name of fighting terrorism” was “a trap that should not be contemplated”. But with each Turkish soldier killed fighting the PKK, Turks' enthusiasm for democracy, and for the EU, gets harder to preserve.

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Charlemagne

The summit dances

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Personalities matter in European summits, but size matters more

Peter Schrank

FOR much of this week, Lech and Jaroslaw Kaczynski—the identical twins who are respectively Poland's president and prime minister—refused to say which of them would be flying from Warsaw to attend the European Union summit in Brussels that is trying to thrash out a new treaty to replace the failed EU constitution. The president would "probably" come, it was announced. But, if the pre-summit talks went badly, his brother Jaroslaw told a French newspaper, then he would come instead, as the "nasty" one of the two.

A truly bold strategy, surely, would have been to send an unspecified "Mr Kaczynski" to represent Poland, leaving unsettled EU leaders to guess whether they were haggling with the nice or the nasty twin. As a bonus, this would have offered a scientific experiment on the extent to which character (as opposed to reputation) really changes summit outcomes any longer.

In the old club of six or 12, individuals could bend summits to their will, securing concessions from larger countries through such attributes as negotiating skill, grit and the stamina to spend the whole night demanding money (Spain's former prime minister, José María Aznar, holds several records in this field). But now, thanks to expansion, the briefest *tour de table* involves 27 contributions, taking a debate-killing two hours. It is hard to hold a summit spellbound when the room is so big that each leader has a handy flat-screen monitor in front of them, so they can actually see who is sitting on the far side.

In the past, European Councils (as EU summits are formally known) were cosy, even earthy encounters between a handful of leaders who knew each other well—for better or worse. The memoirs of Jacques Delors, a former European Commission president, recall that Helmut Kohl, then German chancellor, would shut down debates by abruptly declaring "Ich bin hungrig" (an announcement of hunger that only foolhardy colleagues could ignore, given Mr Kohl's heroic appetite).

Nowadays the real business is often done outside the room, revolving around a handful of powerful leaders, who may spend hours meeting troublemakers in "bilaterals". Lesser or more compliant leaders are left to drink a lot of coffee, make telephone calls and grumble. It is the biggest and richest countries that dominate bilaterals. "In the European Council, size matters," says one senior official, simply. That is because summits are the "last stop" for issues that are too hard or too political to be resolved elsewhere. Leaders of smaller countries can still gain power, but only through long experience and understanding of detailed dossiers. (Jean-Claude Juncker, a multilingual master of the dark arts of EU politicking, carries serious heft, even though Luxembourg is basically a local government.)

The biggest cheeses do not need to worry about mere details, experience or even charm. Confident of his top-dog status, Gerhard Schröder, the ex-German chancellor, failed to conceal his boredom at many summits, sloping outside to smoke cigars when he could stand no more. Tony Blair, still just British prime minister, has often left officials ashen-faced by ceding small points in pursuit of what he considered the big picture. Jacques Chirac, the ex-French president who dominated EU summits for years, could be bulldozer-like in pursuing his demands, but disdainful of petty details. (A book about the single currency's birth records Mr Chirac interrupting finicky British complaints at one of Mr Blair's first summits with a traditional French question, “are we going to keep buggering houseflies for much longer?”)

Size does not get you everything, however. The personal authority of individual leaders matters at summits (unlike EU negotiations at ministerial level, notes one ambassador, where it matters little who delivers the national line). Moreover, those who refuse to take summits seriously (the former Italian prime minister, Silvio Berlusconi, is an example) can squander power even when their country is large. A freshly elected leader is stronger than a lame duck ending his career or heading into an election. And it is not enough merely to have a big economy: it must also be doing well if a leader wants real credibility.

Enter Sarkozy and Brown

Brussels is agog to see how the new French president, Nicolas Sarkozy, handles his first summit. He may not have to do much to impress other than to replace his predecessor. Mr Chirac's once commanding role at summits was eroded over the years by his mishandling of new members from central and eastern Europe, his growing unpopularity at home and his failure to win the 2005 French referendum on the draft EU constitution. As a senior official puts it, “the impact of Sarkozy will come mainly from the fact that France has been absent for such a long time.” Conversely, other governments are intrigued and even baffled that Mr Blair has chosen to stay as British prime minister for this summit, negotiating on behalf of his successor, Gordon Brown. Why would anyone do Mr Blair a favour at his last summit, asks one diplomat: “How is he going to pay them back—in his memoirs?” Others demur: favours are the currency of choice for small things, like changing obscure words in summit conclusions, but when it comes to battling for core interests, neither past favours nor grudges count much.

The press is partly to blame for fostering an obsession with personalities. But this creates its own political reality. The way newspapers report relations between leaders has a direct impact on summits, says one official. And personalities are an obsession even inside the EU machine. “What do people remember from councils?” asks another Eurocrat. “They remember who stiffed whom.” This is not so shocking. Summits are about power, even in an enlarged club. And political power cannot be divorced from personality. That holds true with government chiefs whether they are nice or nasty—and even if nobody is quite sure which twin they are.

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Public health

None so deaf as those that will not hear

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David Simonds

The government's health messages are becoming increasingly strident. That doesn't make them any more effective

TIME for a quick one? If you smoke, you'd better hurry. From July 1st pubs all over England will, by law, be no-smoking areas. So will restaurants, offices and even company cars, if more than one person uses them. England's smokers are following a well-trodden path. The other three bits of the United Kingdom have already banned smoking in almost all enclosed public spaces, and there are anti-smoking laws of varying strictness over most of western Europe. The smoker's journey from glamour through toleration to suspicion is finally reaching its end in pariah status.

Michael Marmot, a professor of epidemiology at University College London, recalls that during his medical training in the 1960s, his teachers would say: “What's the point in telling people about the dangers of smoking? You can't get anyone to give up.” How wrong they were. Most smokers have already heeded public-health messages and stubbed out. In the 1950s two-thirds of British men smoked, and they lit up all over the place. Now only a quarter do, and most enclosed public places went smoke-free voluntarily years ago.

But behind this public-health success story lies a darker tale. Poorer people are much more likely to smoke than richer ones—a change from the 1950s, when professionals and labourers were equally keen. Today only 15% of men in the highest professional classes smoke, but 42% of unskilled workers do. Despite punitive taxation—20 cigarettes cost around £5.00 ($10.00), three-quarters of which is tax—55% of single mothers on benefits smoke. The figure for homeless men is even higher; for hard-drug users it is practically 100%. The message that smoking kills has been heard, it seems, but not by all.

Having defeated the big killers of the past—want, exposure, poor sanitation—governments all over the developed world are turning their attention to diseases that stem mostly from how individuals choose to live their lives. But the same deafness afflicts the same people when they are exhorted to abjure other sorts of unhealthy behaviour. The lower down they are on practically any pecking order—job prestige, income, education, background—the more likely people are to be fat and unfit, and to drink too much.

That tempts governments to shout ever louder in an attempt to get the public to listen—and nowhere do they do so more stridently than in Britain. One reason is that pecking orders matter more than in most other rich countries: income distribution is very unequal and the unemployed, disaffected, ill-educated rump is comparatively large. Another reason is the frustration of a government addicted to targets, which often aim not only to improve something but to lessen inequality in the process. A third is that the National Health Service is free to patients, and picking up the tab for those who have arguably brought their ill-health on themselves grows alarmingly costly.

The smoking ban is an example of the official excess of zeal. Many of the places covered by the new law are already smoke-free—churches, for example. But they all must display prominent no-smoking signs, or else face penalties that are far heavier than those for lighting up. Sign-miscreants may have to pay as much as £1,000, against £200 for a rebel smoker.

Warnings about the dangers of drinking are likewise becoming more shrill. On June 5th the Department of Health published a “national alcohol strategy”, which sets out to make drunkenness as socially unacceptable as smoking has become in most circles. At the end of May it told booze producers to put health warnings on bottles and cans, and threatened legislation if they did not comply. A few days earlier it toughened its advice to pregnant women, though no medical research dictated a change. The message had been that a couple of small drinks a week were all right; now women are told to avoid alcohol entirely from the day they start trying to conceive until their babies are born.

That stridency may be pointless, even counter-productive. There is no reason to believe that those who ignore measured voices will listen to shouting. It irritates the majority who are already behaving responsibly, and it may also undermine all government pronouncements on health by convincing people that they have an ultra-cautious margin of error built in.

Such hectoring may also be missing the root cause of the problem. According to Mr Marmot, who cites research on groups as diverse as baboons in captivity, British civil servants and Oscar nominees, the higher rates of ill health among those in more modest walks of life can be attributed to what he calls the “status syndrome”. People in privileged positions think they are worth the effort of behaving healthily, and find the will-power to do so. More directly, higher status itself protects people's health, he argues, not just by reducing their propensity to behave riskily, but also by changing their body chemistry in ways that protect them against disease.

The implication is that it is easier to improve a person's health by weakening the connection between social position and health than by targeting behaviour directly. Some public-health experts talk of changing an environment where the worst choices are the easiest to make, especially for those without the time and money to seek out better ones—supermarkets crammed with ready meals, happy hours in pubs, roads too dangerous for children to walk to school. Others speak of social cohesion, support for families and better education for all. These are bigger undertakings than a bossy ad campaign; but more effective, and quieter.

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Sir Salman Rushdie

A new chapter

Jun 21st 2007
From The Economist print edition

An unusual scandal for Britain's honours system

THESE are great times for flag manufacturers. Union Jack vendors did brisk business across the Middle East this week, as mobs vented their anger with a bonfire of flags and effigies of Queen Elizabeth. The blaze was sparked by the knighting of Salman Rushdie, the prize-winning British-Indian author who angered many Muslims with his 1988 novel, “The Satanic Verses”. Sir Salman was forced into a decade of hiding when Ayatollah Khomeini, then the Supreme Leader of Iran, issued a death warrant against him as punishment for the book's unflattering depiction of the Prophet Muhammad. The *fatwa* was lifted in 1998, but not before the novel's Japanese translator had been murdered and scores more injured in anti-Rushdie rioting around the world.

Sir Salman's gong, announced on June 15th, appears to have raked over the embers. The Iranian foreign ministry denounced the rewarding of the “detested figure” as another example of British anti-Islamism. Pakistan's religious-affairs minister said it justified suicide bombing, though he later took this back. Protests spread to Malaysia.

In Britain the reaction seems muted so far. When “The Satanic Verses” was first published, Muslims staged book burnings in Bolton and Bradford. Now Inayat Bunglawala of the Muslim Council of Britain, who rallied against the book as a student in the 1980s, admits banning is not the answer. “The freedom to offend is a necessary freedom. Moreover, Islam has flourished wherever there has been a free atmosphere,” he wrote for the *Guardian* this week.

Still, there is talk of protests. “The issue was dead and buried, and it has just been resurrected,” laments Khurshid Ahmed, chairman of the British Muslim Forum. But he doubts the knighthood will stir as big a controversy as the cartoons of the Prophet which triggered demonstrations outside Danish embassies last year. A 19-year-old magic-realist novel, however daring, lacks the punch of a tabloid caricature, he reckons.

It is hard to know who speaks for the British Muslim on the street. But the Muslim on the internet seems relaxed. “What the hell has it got to do with Pakistan or any other country who we give knighthoods to?”, reads one comment on the BBC Asian Network's message boards. Many are more interested in Lady Rushdie, a 36-year-old model.

Some Iranians see the honour as a deliberate snub, perhaps in retaliation for Iran's kidnapping of 15 British sailors and marines in March. In fact, it may not have been half so calculated. The committee that recommended Sir Salman claims it considered only the merit of his books, and the Foreign Office says it plays no part when figures from the arts are nominated for a knighthood. Rather than trying to rile Iran, it appears that Britain forgot all about it. That must be far more hurtful.

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Private equity in the spotlight

Taxing minds

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Why Britain's private-equity kings so readily agreed to a higher rate of tax

IT SEEMS as preposterous as turkeys voting for Christmas, but some of private equity's "kings of capitalism" are asking to pay more taxes. Sir Ronald Cohen, a doyen of the industry (and donor to the Labour Party), and two other veterans, Nicholas Ferguson and Jon Moulton, have said in recent weeks that partners in buyout firms ought to hand over more to the taxman.

This seeming generosity hints at the pressure private equity is now under in a country where once it felt, if not welcome, at least tolerated by most. Britain's is an unusually open economy, where everything from ports to once-great industrial firms such as ICI (see article) seems to be up for grabs. Yet this week grumbles about private equity reached the highest offices of the land. On June 20th the cantankerous (and sometimes incoherent) MPs of Parliament's Treasury Committee put bigwigs from Permira, Kohlberg Kravis Roberts (KKR), 3i and Carlyle Group—four of the world's biggest buyout firms—through a heated cross-examination. Tony Blair, meanwhile, said offstage that "real issues" had been raised by critics of the industry.

Criticism of buyout firms is not new. But it has taken on a sharper tone of late as the industry's biggest funds have begun to circle Britain's largest companies. The tipping point came in February, when a group of private-equity firms mulled a bid for J Sainsbury, Britain's third-largest supermarket group. That proposal was seen off by the grocer's founding family, but in April the first FTSE 100 firm succumbed—Alliance Boots, a household name.

These big deals have added a new urgency to the familiar litany of concerns about private-equity firms: that they slash jobs and strip assets, and that a long-established firm may disappear under the weight of the debt used to buy it. Though the industry tries its best to show that, on the whole, firms emerge from private-equity ownership stronger than they enter it, there is growing concern in the business about the increased scrutiny that these bigger deals are attracting. As private equity's kings stand blinking in the spotlight, another tricky issue has emerged: tax, and the fact that they tend to pay so little.

This month Mr Ferguson, the chairman of SVG Capital, set pinstripes aquiver when he said that private-equity executives were "paying less tax than a cleaning lady", and that this was wrong. Partners make most of their money in the form of "carried interest", their share (usually around 20%) of a private-equity fund's profits. Carried interest is treated as a capital gain on investment rather than as income from employment, and so attracts more lenient tax treatment than the latter. If partners do not cash in within two years, they benefit from "taper relief": the effective rate they pay is 10%, compared with the usual 40% on gains and income.

Some (though far from all) in the industry now argue that they ought to be paying at twice the rate, or 20%. Their largesse seems calculated to deflect demands for more. "Carried interest should never have been subject to capital gain in the first place," says Richard Murphy, who campaigns against tax avoidance. "It's income. It's remuneration."

Guy Hands, of Terra Firma Capital Partners, argues that to think of carried interest as pay is "patently absurd" because it represents a return on money the partners have put at risk. But a 2003 agreement between the industry's lobby group and the taxman suggests this is little more than a fig leaf. In it, the authorities said that an investment of as little as £2,500 would entitle partners to claim taper relief on their share of the profits of a £100m fund.

Moreover, many of private equity's richest do not pay even 10% on the bulk of their profits, for Britain does not tax the foreign income of residents who were born (or have parents born) elsewhere and choose to be considered "non-domiciled". Some 110,000 people were benefiting from this provision at the last count. It is especially useful in private equity because a partner's original investment in a fund is often made through an offshore trust.

Whether Gordon Brown, who leaves Number 11 for Number 10 Downing Street next week, will want to change the tax treatment of private-equity firms is not clear. He has staked much on the bet that Britain's path to prosperity lies in making London the world's centre for financial wheeling and dealing, and will be reluctant to do anything to send its denizens packing. But nor can he afford to be seen to countenance one set of rules for the rich and another for the rest. As in America, where a bill to tax some private-equity outfits more severely was introduced in the Senate on June 14th, change is in the air. Just how much remains to be seen.

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The Dome

Re-opening an old wound

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A national fiasco rises again, under new management

PRINCE CHARLES once described it as the “monstrous blancmange”; others knew it as the “white elephant”; and Peter Mandelson, the former Labour cabinet minister whose political career it almost destroyed, probably had a more colourful name for it altogether.

Originally the brainchild of the Tories under John Major, the Dome was embraced by Tony Blair, who had high hopes that the quirky building would become the millennial face of Cool Britannia. Dogged by poor financial management and political scandal, Richard Rogers's tent-like structure instead became the boil on the cheek of the Thames. Since 2000 it has sat on the edge of London's south-east docklands, empty and unloved, haemorrhaging money and serving as an unsightly symbol of New Labour's naivety and fiscal ineptitude. At best, the British public have been indifferent towards it; more often they have poured scorn on the building; and last year, when it failed even to win the bid to house Britain's first super-casino, there were suggestions that it be bulldozed once and for all.

But on June 24th the dome is to open again, reincarnated as The O2, after the mobile-phone company that has shelled out £6m ($12m) a year to be its primary sponsor until at least 2013. Now a snazzy all-purpose entertainment centre containing two live music venues, 11 cinemas, Olympic sporting facilities, an indoor beach, an exhibition space, a nightclub and a plethora of eating places, it has been overhauled by Anschutz Entertainment Group (AEG), a conglomerate owned by an American billionaire once thought to be too friendly with the deputy prime minister, John Prescott. Spending about £350m on the revamp, AEG, which runs similar enterprises in America, such as the Staples Centre in Los Angeles, has entered into a profit-sharing deal with the British government. This means that at least some of the £628m of lottery money wasted on the initial project should find its way back to the Treasury.

Will the public be fooled by a new name, a new purpose, and some small change? More than 1m tickets have already been sold for future musical events, which suggests that they might. As kitsch as the fake palm trees and artificial street running along the inner circumference of the dome may be, the facilities it now boasts are impressive. The main O2 arena, which will play host on the opening weekend to Bon Jovi, an American rock band, seats 23,000 and sets the world standard for stadium acoustics, its owners boast. It has attracted a clutch of other top performers this summer, including the Rolling Stones, Justin Timberlake and Elton John. The smaller Indigo arena will house jazz artists, awards ceremonies and speeches by visiting worthies including Bill Clinton.

With plans in the pipeline for international sporting events, hotels, a cruise dock, film premieres and even—perhaps—that casino, the future is looking brighter for this bump on the British consciousness. But its troubled history will not be easily forgotten.

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Climate change

Greenwash

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Environmentalism is concealing any number of misguided policies

ONE of the many little annoyances of life in a crowded city such as London is the cost of parking. From next month, residents of the north London suburb of Haringey will be particularly unhappy. Those who own cars with high carbon-dioxide emissions will see their parking charges rise almost fourfold, from £25 a year to £90. A similar plan was enacted in Richmond, a wealthy western fringe of the city, in March. There, the price of parking a dirty car rose threefold, with even stiffer penalties for those who own more than one vehicle. Local authorities elsewhere in London and in other big cities are watching with interest.

Such moves have been met with howls from Britain's motoring lobby and from local residents. Councillors insist that they want to tackle global warming, and claim that consultations prove most residents are in favour. Rubbish, say the cynics: the real issue is that a tight-fisted central government has left councils short of cash, and parking charges are a good substitute source. For them, all the pious talk of saving the planet is mere greenwash, designed to sell an unpopular tax increase to resentful voters.

Haringey's plan is merely the latest in a flowering of official greenery. Ken Livingstone, London's mayor, has mooted tinkering with the city's pioneering congestion charge, which already rewards drivers of electric and gas-powered cars by exempting them from the £8-a-day charge. The mayor wants to go further, cutting prices for cleaner cars and hiking them for dirty ones. If he gets his way, drivers of the biggest cars could pay £25 to drive into the city centre. Mr Livingstone's opponents in the London Assembly accuse him of being more interested in revenue-raising than road-clearing.

It is not just local government that has caught the green bug. Earlier in the month, the government wondered publicly about adding a “carbon cost” to the price of petrol by including motor fuel in the EU Emissions Trading Scheme, which limits the amount of carbon dioxide certain industries can produce.

Officials are right that voters see climate change as a problem. But none of these plans is obviously a good idea. Britons are already taxed twice on their cars' carbon emissions: once by a sales tax on petrol, and again by a separate tax levied on the cars themselves. And exemptions, however well-intentioned, work against the purported aim of London's congestion charge—clean vehicles take up just as much road space as dirty ones.

Petrol taxes, in particular, are already eye-wateringly high at 50p per litre. Work by David Newbery, an economist at Cambridge University, suggests that existing levels of fuel tax more than cover the environmental damage that motoring does to local air quality or global carbon-dioxide levels. Forthcoming research from London's Imperial College argues that, on assumptions recommended by Sir Nicholas Stern, the author of a government study on climate change, the damage caused by carbon emissions amounts to less than 20p per litre.

Unthinking (or politically expedient) enthusiasm for greenery could, in fact, actually contribute to environmental damage. Though Tony Blair claims that Britain leads the world on climate change, his government has admitted that it will fail to meet its domestic environmental targets. These call for a 20% cut in carbon-dioxide emissions by 2020, compared with their 1990 levels; but emissions have risen over the past four years. Mr Blair has talked often of the need for “radical action” to confront climate change. The risk is that poorly thought-out policies by overzealous central or local government will only reinforce the notion that environmentalism is little more than a useful disguise for raising a bit of extra cash.

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School standards

End-of-term report

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Tony Blair's legacy to Gordon Brown

IT WAS for the 1997 election which swept him to power that Tony Blair coined his catchphrase, “education, education, education”. Within a week a new Standards and Effectiveness Unit had been set up in the education department; within two, ambitious targets for the literacy and numeracy of 11-year-olds had been declared. Initiative followed hard on the heels of initiative, and in the ensuing decade spending per school pupil rose in real terms by three-quarters.

Yet the result of all this activity has not been so impressive that his successor, Gordon Brown, feels able to move on to other things. In a speech to City grandees on June 20th, the man who will be prime minister set out his plans for continuing the permanent revolution. He called for a national debate on how to make Britain world-class in education. And he promised to set up a new talking-shop: a “National Council for Educational Excellence”, in which to have it.

The conclusions of two reports published on June 22nd will make depressing reading for the assorted businessmen, teachers and university worthies who are supposed to constitute this body. The first, from the Joseph Rowntree Foundation, a charity that looks at social issues, details how poor children are still being failed by the education system. Low achievement continues to be strongly linked to poverty, living with unemployed or poorly-qualified parents or living with a single parent. Children who start with any of these disadvantages end up disproportionately concentrated in the worst schools. The worst-served groups are working-class white boys, those with special needs and children in care.

The second, by Alan Smithers of Buckingham University for the Sutton Trust, an education charity, concludes that many of the government's education targets have been missed, and will probably stay missed. It looks unlikely, for example, that half of all 18-year-olds will proceed to tertiary education soon; the proportion is stubbornly stuck at 43%.

Worse, some of what progress there appears to have been is illusory. The report endorses work by Peter Tymms, an education researcher at Durham University, who argued in 2004 that much of the improvement in 11-year-olds' literacy and numeracy test results was due to teaching to the test. Similarly, although the main target for 16-year-olds—that by 2008 60% of them should get the equivalent of five good GCSEs—should be met, this is only because students are sitting easier exams. If GNVQs (vocational qualifications) are excluded, only 53% meet this benchmark, and if only those students who get good marks in English, mathematics and a language are counted, the proportion is not only far lower, but falling.

Much to the ire of Mr Smithers, working all this out was harder than it should have been. He says this is because the government both sets policies and monitors their results: research that endorses those policies is widely publicised and research that doesn't is harshly criticised. He proposes creating a new watchdog to monitor the quality of education and to guarantee exam standards; the current one, Ofsted, rates individual schools but has no remit to look at these wider issues.

International comparisons cited in the study suggest that schools perform better when they are given more autonomy; the OECD finds, for example, that across a range of countries independent schools outperform government ones, and those that are merely funded by the state do better than those it runs. Pleasingly, this is the direction in which policy has been moving in England recently—and Mr Brown, in his speech, promised this would not change.

“We need to give heads the freedom they need to lead schools and respect the professionalism of our teachers,” he opined, although the effect was undermined by an ominous-sounding promise to help teachers “train and retrain”, and by his statement that schools must be “held to account for ensuring every child makes progress”. The blizzard of paperwork that makes it so difficult to find head teachers now shows no signs of abating.

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Protecting pensions

Testing, testing

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The regulator takes on a tricky target

AFTER weeks of wrangling, the consortium led by KKR, a private-equity firm, that is acquiring Alliance Boots has reached a deal with the chemist chain's pension trustees. But as peace has broken out in one part of the pension landscape, hostilities have begun in another. The Pensions Regulator, a new force in that terrain since 2005, has moved towards issuing its first-ever order to a company to make up a shortfall in its British pension schemes.

This power formed part of a package of reforms spurred by the sorry spectacle of pension-scheme members who were left in the lurch when their firms went bust with too little in the pension fund. The government set up the Pension Protection Fund, financed by levies on corporate final-salary schemes, which has provided a safety net for people caught in this predicament since April 2005.

The reform tackled one risk but introduced another. This was the “moral hazard” that the new system of pension insurance might entice companies to behave in ways that would weaken their ability to back their pension schemes. The regulator, led by David Norgrove, was given special powers to deter firms from such conduct.

One of those powers was the right to issue a “financial support direction”—a demand that a company assume financial responsibility for a subsidiary's pension plan. In order to ensure that this did not prevent legitimate corporate reshuffling, firms could approach the regulator to get an assurance that their plans would not trigger a subsequent financial penalty.

The regulator's powers, which include the broader oversight of pension-scheme funding, have assumed a new salience because of the debt-fuelled stream of mergers and acquisitions of the past couple of years. Working behind the scenes, Mr Norgrove has managed to get money into inadequately funded schemes when their sponsoring employers have changed hands or have been reshaped through acquisitions. Most notably, the regulator secured a big payment to prop up the pension fund of Marconi, when Ericsson, a Swedish firm, took over most of what remained of the former industrial giant. More recently, it has played what Mr Norgrove describes as a significant role in resolving the dispute between the Boots pension-scheme trustees and the consortium led by KKR.

Yet, remarkably, until this week the regulator had not actually used its special powers. On June 18th it took the first step towards doing just that. A financial-support direction will be made against Sea Containers, a Bermuda-based company, which owns and leases containers and runs ferry services. The firm filed last October for protection from its creditors under America's Chapter 11 bankruptcy provisions, which allow companies to continue normal operations while they restructure themselves.

The regulator will demand that Sea Containers bolster the two pension schemes of its British subsidiary, which provides operating services for the group. An estimated £91m is needed to safeguard the pensions of the plans' 1,300 members. There are rival creditors with an even bigger claim, however—notably, the firm's bondholders, who are owed $387m.

Whether or not the regulator is going to succeed in enforcing its will is unclear. Sea Containers says it would have to get the approval of the American bankruptcy court. What is clear is that the outcome matters a lot for pensions in Britain, as the regulator's authority is put to the test for the first time.

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Bagehot

The parable of the smiles

Jun 21st 2007
From The Economist print edition

Steve O'Brien

How Tony Blair lost his grin and Gordon Brown found his, for now

Get article background

ALONG with the ears, it has been a cartoonist's delight. As broad as the Cheshire Cat's, full of slightly wonky teeth, the smile was at once confident and touchingly gauche. Especially when accompanied by a wobble of the lower lip (implying humility or compassion) or an ingratiating lift of an eyebrow, the smile could be irresistible.

So it was when its proprietor, Tony Blair, arrived in Downing Street in May 1997. As he acknowledged this week, his last as prime minister, Mr Blair wanted “to be all things to all people”, and for a time he came close. Like Bill Clinton and his handshake, Mr Blair and his smile beguiled Worcester Woman, Mondeo Man and the other alliterative target voters that his New Labour needed to secure its landslide. “The strangest Tory ever sold”, this newspaper called him; and even if the broad electoral church he assembled has splintered, its main tenet—capitalism with a benevolently smiling face—seems set to dominate British politics indefinitely. The smile was inverted when Mr Blair eulogised Princess Diana as “the people's princess”. Lip wobbling, he took it to Kosovo, his great foreign triumph.

But by the time of his third election victory, in 2005, the smile was wearing thin. Mr Blair was one of the great actor-politicians of his or any age, but the audience had rumbled him: the scripted tentative umming at the start of speeches; the contrived blokeish directness. Worse, Britons saw that Mr Blair also smiled and smiled at villainous European leaders and useful businessmen—and at George Bush. Customarily accused of timid cravenness, in their joint Iraqi misadventure Mr Blair displayed the opposite fault, a wilful blinkered stubbornness. It has led him into a disaster that no amount of smiling can conceal.

The smile itself changed too, set as it was in a gaunter face, the frown lines deeper, the hair greyer and thinner. In the last few years it has been routinely referred to as Mr Blair's “rictus grin” (as in a rock song that excoriates “every bloody emperor with his sickly rictus grin”; the rhyme is with “the lie within” rather than the more predictable “spin”). It came to seem forced, unnatural, even—the bloodier things in Iraq became, and especially during Mr Blair's valedictory world tour—slightly unhinged. This week, with the extent of his doubts over America's post-war planning leaking out, Mr Blair was still unyielding on Iraq.

Contrary to popular belief, Gordon Brown—who will become prime minister on June 27th—also has a smile. Two of them, in fact. The first, a boyish grin, was on display when his succession became assured last month. The formidable jowls melt away; the face lights up like a child who has won a running race, or perhaps come top in an exam. It is a smile of relief after the long long wait for the main job, which began

well before the legendary deal with Mr Blair over the Labour Party's leadership in 1994. Now that job is Mr Brown's, and he can escape the rancour of their double act—which, it increasingly seems, was at least as bad as rumour suggested, less a creative tension than a threat to the entire New Labour project. The timely disarray of David Cameron's Tories has helped Mr Brown's mood too.

Gordon's tragic grin

This is the face not often seen in public: Mr Brown the family man, capable, rumour has it, of charm and wit. For those who want him to prosper as prime minister, this spontaneous warmth hints at the possibility of change, in the two ways that change is necessary. First, change from Mr Blair, the inauthentic actor-politician, the confidence-trickster. Second, a change from the image that has grown up around Mr Brown as chancellor of the exchequer: the control freak's control freak, the Stalin of the Treasury, the “big clunking fist”, as Mr Blair once seemed to describe him, with more frankness than he probably intended.

A relaxed Mr Brown might mean what he has been saying about fostering a more collegial style of government, with a louder voice for Parliament, a bigger role for the cabinet and space on his sofa for others besides Treasury yes-men. He has promised “a government of all the talents”. Though he was rebuffed this week when he offered the former Liberal Democrat leader, Paddy Ashdown, a seat in his cabinet, it will become clear next week when he announces his new team how much room there is in it for still-promising Blair acolytes (such as John Hutton, currently the pensions secretary). A relaxed Mr Brown would revive the devolving instinct he showed in 1997, when he made the Bank of England independent, applying it this time to public services and the constitution. The reformist noises he has made during this strange interregnum have pacified many of those senior Blairites who once hoped someone or anyone else would become their new leader. Acting on the noises would torpedo Mr Cameron's strategy, which has been more or less explicitly to ape Mr Blair.

But one of Mr Brown's problems is that he neither could (because he was part of it) nor should (because it was broadly successful) repudiate Blairism entirely. He knows that Mr Blair still reflects the views of more voters than any other politician, even if those voters no longer trust him. The risk—suggested by Mr Brown's second smile—is that he will choose the wrong things to retain, and will do them less well than Mr Blair.

Thin-lipped, forced, without the happy eyes, Mr Brown used to deploy this other smile while listening to Mr Blair speak. More recently, he has used it when straining to crack jokes and to seem ordinary: when pretending to be something he isn't. In this mood Mr Brown—not ‘Blair-lite' but ‘Blair-heavy'—seems set to compete with Mr Cameron's quiffy style, instead of capitalising on what voters appreciate in him: his perceived seriousness, and an experience of running things that neither Mr Blair nor Margaret Thatcher could boast. This second, insecure smile seems to presage tragic disappointment for Mr Brown.

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Suicide

Elusive, but not always unstoppable

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Panos

People end their own lives for many reasons, only some of which are well understood—but governments should not simply shrug their shoulders

FOR many people in the northern hemisphere, the spirits lift in June—but in India it is a time for examination results, and they can bring despair as well as joy. In any event, the Sneha suicide-prevention centre in Chennai stays open round the clock in mid-June, and the telephones have been ringing hard. Suicide rates have been rising in India, especially among the young, and over a third of those who kill themselves are under 30 years old.

But suicide is a mysterious phenomenon; it defies generalisations. Emile Durkheim, the father of modern sociology, wrote in 1897 that suicide rates were a key sign of the state of a community. It was commonest, he reckoned, at two extremes—highly controlled societies, or loose, atomised ones. Since then, his successors have filled thousands of books with theories about what makes people take their own lives: the negative factors which remove the desire to live, and the positive ones that can make self-killing an attractive or even “fashionable” option.

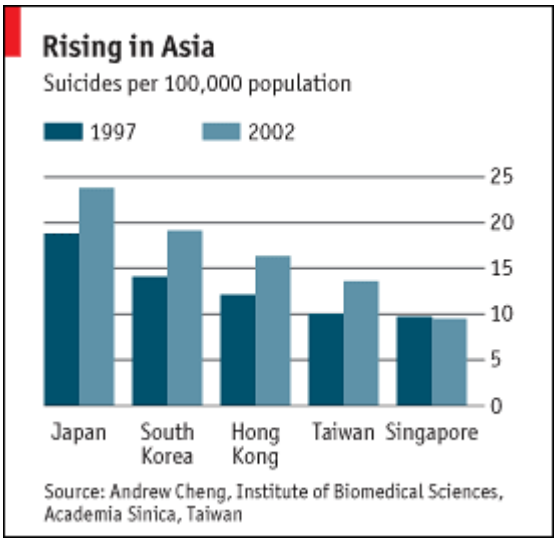
In India, the desperation of students has been studied relatively little compared with that of farmers, who have killed themselves in rising numbers in recent years: over 17,000 died by their own hand in 2003. The trend is often ascribed to debt, drought and the ready availability of pesticides that serve as poison.

But in India no less than elsewhere, the inner turmoil that makes people end it all usually has complex causes: social dislocation, family tensions or long-term depression. No group escapes. The country's suicide capital is booming Bengalooru (Bangalore), where most of those who do it are skilled workers; housewives are the next-biggest category. Some reports say suicide became common among Indian farmers only in the late 1990s, after agrarian and trade reforms introduced a few years earlier by a liberalising government. In truth, such deaths were probably going unrecorded for decades before that. Official data tell us as much about social mores (the extent to which self-killing is concealed) as about what really happens.

But one new trend that is clearly pushing the real incidence of suicide up is the growing use of the internet to learn about, plan or even encourage self-killing. Back in 1997, the internet was used to publicise the effectiveness of charcoal-burning barbecues as a means of carbon-monoxide poisoning; the first recorded case of two or more people using the web to form a suicide pact was in Japan in 2000. Since then hundreds of people, if not more, have taken their lives this way, in countries from Australia to Spain.

Nowhere are such internet deaths more common than where they started—in Japan, whose suicide rate has long been among the highest of never-communist developed countries. Japan is a conformist society, and life, it is said, is bleak for those who do not fit in. It has a tradition of self-killing, which in some forms, such as the ritualised *seppuku* (“belly-cutting”) of the samurai, may still be deemed honourable,

even noble. Public figures shamed by scandal often kill themselves. For anonymous losers, the internet may provide a means to become, in death at least, a part of a group, so important in Japanese society. Typically, two or more such people bent on suicide will make contact via a website, get together on an appointed day and end their lives with exhaust or charcoal-stove fumes while parked in a deserted spot, perhaps facing Mount Fuji.



South Korea, too, has seen a new wave of such suicides. It, like Japan, is a country in which the young find themselves under huge pressure to succeed, and most internet pacts involve young people. Unlike Japan, however, South Korea does not have a long tradition of self-inflicted death. Two decades ago it had a fairly low suicide rate (under ten per 100,000 in the 1980s), but now it has one of the world's highest (24.7 in 2005). And whereas in Japan internet pacts form only a tiny proportion of the total number of suicides, some studies suggest they may account for almost a third in South Korea. In both countries, though, most people who kill themselves are elderly or middle-aged men.

For all their elusiveness, suicide rates can certainly be correlated with other social and economic indicators. The Organisation for Economic Co-operation and Development, a Paris-based think-tank for rich countries, says the same range of factors explains cross-country differences in people's declared degree of contentment with life, and suicide rates. So four-fifths of the variance in suicide rates across 50 countries can be explained by differences in the rates of divorce and unemployment, in quality of government, religious beliefs, trust in other people and membership of non-religious groups.

All this may help to explain why so many ex-communist countries have high suicide rates (over 13 per 100,000) and so many Latin American countries have low ones (under 6.5), but some differences are nonetheless striking. Among rich countries, the high rates of Hungary, Japan, Belgium and Finland stand out, whereas most Mediterranean countries score low (below five). Ireland has a significantly higher rate than its neighbour, Britain.

Certain differences can be readily explained. China is one of the few countries in which more women kill themselves than men. Over half the world's female suicides are Chinese; among Chinese under 45, the female rate is twice the rate among males. Why should things be different in China? Part of the explanation clearly lies in the high rate among rural women, which in turn may be partially explained by the ready availability of poisons (weedkillers and pesticides), and the absence of any effective treatment. Similar apparent anomalies may be explained by the ready availability of other poisons. Many Sri Lankans kill themselves by eating the seeds of the yellow oleander, a common shrub.

Intentional self-poisoning with these seeds was almost unheard of in Sri Lanka before 1980, but in that year two girls committed suicide by eating them. Inadvertently, they started a trend. Similar fashions often follow the suicide of a celebrity such as Michael Hutchence, an Australian pop star who apparently took his own life in 1997, or M.J. Nee, a Taiwanese actor who hanged himself in 2005.

Measures can be taken to make it harder for people to kill themselves. They may not be able to (and arguably, should not try to) stop the really determined, but they can save the lives of many who are confused, temporarily depressed or in need of sympathetic attention. In countries like Britain, suicide rates have fallen significantly thanks to legislation that allows drugs such as paracetamol to be sold only in small quantities. South Korea has tried to close “death websites”, suicide chatrooms, internet bulletin

boards and blogs, and Japan also tries to police the web. Andrew Cheng, a Taiwanese professor of psychiatry, wants to alert the media to the risks of glamorising celebrity suicides. In South Korea barriers have been erected in metro stations, to stop people throwing themselves in front of trains.

Government action certainly makes a difference, though sometimes results are perverse. Some Indian states pay bereaved families compensation for the loss of a breadwinner who has killed himself; this seems to increase the suicide rate.

At a more practical level, higher barriers could be put up on San Francisco's Golden Gate bridge, off which some 1,250 people have leapt to their deaths since it opened in 1937; tests in May showed that such barriers are quite feasible. And many places badly need suicide-prevention agencies like the Samaritans, which offer a friendly response to anyone contemplating taking his own life. Mental health gets a low priority in many countries, including places like Japan with high suicide rates.

In most rich countries, though, rates have been falling for the past two decades, especially among the elderly. In poorer places the picture is more mixed. In most of Africa no reliable data are available; elsewhere, especially in places where traditional roles are undergoing rapid change, suicide seems to be increasing. Worldwide, indeed, suicide rates have increased by 60% in the past 45 years. About 1m people a year die at their own hands. Too many of these deaths are avoidable.

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Economist.com WORLD INTERNATIONAL

Cluster munitions

A change of heart, or of tactic?

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From The Economist print edition

A grudging response to America's new line on little bombs

WHEN a country that has hitherto resisted curbs on a certain kind of weapon undergoes a sudden change of mind, shouldn't that prompt cries of joy from the arms-control fraternity? In practice, that rarely happens. The instinct is always to look for the catch, and given the nature of the arms-control game—in which most players' aim is to talk sweet reason while keeping as many weapons as possible—there are reasons for this caution.

In this case the country is the United States, and the weapons in question are cluster munitions: in other words, artillery shells or bombs dropped from the air which fragment into tens or hundreds of tiny but deadly “bomblets”. They often fail to explode immediately and, like landmines, can pose a danger to civilians for years after a conflict—especially to children who may be attracted by their bright colours. Cluster munitions got an especially bad press last year, during and after Israel's assault on the Hizbullah movement in Lebanon. The United Nations estimated that the Israelis dropped up to 4m submunitions, of which at least a quarter had failed to go off immediately.

On June 18th the Americans unexpectedly told a meeting in Geneva they were willing to start negotiating a treaty to regulate the use of cluster bombs—as part of a ponderous process, going on since 1980, known as the Convention on Certain Conventional Weapons (CCW). This was because of “the importance of this issue, concerns raised by other countries, and our own concerns about the humanitarian implications of these weapons,” said Ronald Bettauer, an American diplomat.

That is quite a shift. Previous statements from the Bush administration had stressed that cluster munitions, when “used carefully”, could serve legitimate aims such as attacking an enemy's artillery positions or airport runways. Only last November, America saw no need for specific curbs on this class of weapon.

So why the new tone? Cynics immediately suspected that the American move was a deft response to a fast-growing international movement for a full prohibition at least of the deadliest types of cluster bombs. Under the so-called Oslo process, launched in Norway in February, some 46 countries vowed to negotiate by next year a ban on using, making, stocking or transferring cluster munitions “that cause unacceptable harm to civilians”. As part of the Oslo movement (to which over 70 states have now signed up), countries have been vying to take unilateral steps to show their goodness. For example, Britain said in March it would stop using two kinds of “dumb” cluster munitions which lack self-destruct devices. But it kept the right to deploy one class of mini-explosive that does supposedly blow itself up: the M85, widely used in Lebanon last year. (It seems the self-destruct mechanism is not very reliable: human-rights workers have spotted many unexploded M85s strewn across the Lebanese battlefields.) In any case, some countries—such as Norway and Austria—have pointedly stated that they are halting the use of M85s as well as cruder types of submunition. At a meeting in Peru in May, there was talk of making Africa or Latin America cluster-bomb-free zones.

Given the general mood of competition to be virtuous, America had little choice, perhaps, but to signal its own willingness to co-operate in limiting the humanitarian effects of mini-explosives. In defence of its record, the United States says it has spent over $1 billion over the past decade or so to help clear unexploded munitions in East Asia, the Balkans and the Middle East.

For the keenest critics of cluster bombs, it would have been best if America had just joined the Oslo bandwagon rather than trying to breathe fresh life into the larger, slower-moving CCW, where Russia and China can be relied on to block any full ban on cluster bombs. But that argument works both ways. Through the CCW, the Russians and Chinese might at least be talked into curbs on some types of cluster bombs, and on how they can be used.

Whichever diplomatic route proves more important, the pressure to stop deploying mini-explosives without regard for civilian life is piling up. One day, predicts Wade Boese of America's Arms Control Association, “supporters of curbs on the use of cluster bombs will prevail.”

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Economist.com WORLD INTERNATIONAL

Cyber-crime

A good bot roast

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Lawmen get to grips with audacious computer-rustlers

MOST people would hate it if criminals impersonated them in order to commit crimes. But that is just what happens when the emerging gang of wrongdoers called “bot-herders” hijack other people's computers, stitch them together in a “botnet” and use them to send spam, steal data or disrupt the internet.

Public opinion is untroubled, or sees them as a mere irritant: an obscure, geeky sort of prankster. But law-enforcement officials in many countries view them as a ballooning threat. America's Federal Bureau of Investigation (FBI) calls botnets a danger to national security, the national information infrastructure and the economy. Botnet attacks last month on Estonia, during a row with Russia over a Soviet-era war memorial, attracted close attention from NATO, the Pentagon and other government agencies.

Now the FBI has announced the first successes in what it calls “Operation Bot Roast”. This investigation, the largest to date, has led to indictments against three men accused of using up to 1m hijacked computers, many of them outside America, for criminal purposes. If convicted, they face long prison terms.

As the criminal-justice system grinds into action against cyber-criminals, civil lawsuits are beginning too. An American pharmaceutical company, Abbott Laboratories, is suing a French group of AIDS campaigners, Act Up-Paris, for allegedly crashing its website in April. The activists complain that Abbott is overcharging people in poor countries for its drugs.

The FBI hopes that the latest operation will not just frighten bot-herders, but also encourage computer-owners to show more public-spiritedness. Shawn Henry, a senior FBI official, thinks that owning a computer should be more like driving a car. “You have to take tests. It's a lot of responsibility being behind the wheel of a 3,000lb piece of machinery.”

But that is not the way the internet works. Most owners of infected computers neither know nor care that their machines may be damaging an unknown person in an unknown way. Initially the FBI said it wanted to track down infected computers in the botnets it had identified and warn their owners. But that is technically difficult, and hugely time-consuming.

Then it advised people worried about their computers' health to call the company that provides their internet service. But the economics of that look flawed. Danny McPherson of Arbor, an internet-security company, points out that most internet providers make only a couple of dollars of profit a month per customer. Having a human being answer a customer's call costs an average of $25. Unsurprisingly, most internet providers strongly prefer their customers not to call, or offer advice only via a premium-rate line.

That reflects a deeper problem: though cyber-hygiene is a public good, it is unclear who should pay for it, or who can be sued for careless behaviour (or worse) that leads to the pollution of the internet. Individual conscientiousness has its limits. Given the hundreds of thousands of new threats recorded each year, a really solid anti-virus protection should update every few minutes, notes Mr McPherson. But that's not practical. Most such software is more lucrative than effective. It works against less than half the extant threats, a level he calls “pathetic”. It can be compared to a car seatbelt—a precaution, but no substitute for safe driving.

A partial answer to botnets lies in better defences and detection. New software tends to be less vulnerable than old versions (though nothing prevents people running old, cheap and dangerous browsers and e-mail programs if they choose). It is becoming easier to identify botnets and to spot the clever and scary ones quickly. As botnets evolve from simple vandalism to sophisticated criminality, people take them more seriously. “If your machine is owned by an outsider it can be used at night to

attack someone else. But it can also be used to steal your personal information," says Martin Lindner of Carnegie Mellon University, who works with the American government on internet security.

A second difficulty is that cyber-crime does not respect national borders. The recent FBI investigation targeted American bot-herders with mainly American victims. But in plenty of countries, running a botnet is either not illegal at all, or can be done with impunity. The American administration may quibble about multilateral law enforcement on some issues. But its cyber-sheriffs want an international posse, as soon as possible.

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Airbus

Happy landing?

Jun 21st 2007 | PARIS
From The Economist print edition

Reuters

Europe's aviation giant is fighting back, but it still has a lot of work to do

Get article background

WHATEVER else, Airbus cannot be accused of failing to put on a brave face at this week's Paris Air Show, held every two years. Louis Gallois is the troubled European airframe-maker's third chief executive within 12 months. But still he declared: “I can tell you with full confidence that Airbus is back and fully back.” Supporting his bullish public message was an extraordinary spate of orders and commitments for over 600 aircraft drummed up in time for the show by the firm's super-salesman, John Leahy.

They included more than 13 orders for its delayed double-decker A380 (one for private use) taking its total towards 200, and 172 for the A350 XWB, the second attempt by Airbus to produce a worthy competitor to Boeing's so far all-conquering 787 Dreamliner. Meanwhile, at the short-range end of the market, the narrow-body A320 family has chalked up its 5,000th firm order since its launch nearly 20 years ago. The statement of intent from Airbus is clear: it expects a roughly equal share of a market Boeing estimates will amount to nearly 29,000 planes, worth $2.8 trillion, over the next 20 years. Crisis, what crisis?

Although it is heading for a second successive loss—last year it plunged €572m ($718m) into the red—Airbus is undoubtedly in better shape than it was 12 months ago when wiring problems delayed the A380 and the weak dollar exposed the firm's bloated cost base. It has begun the “Power8” recovery plan, intended to save €2 billion annually by cutting 10,000 jobs and auctioning off six factories to partners. (Tellingly AVIC 1, a Chinese state-owned aviation company, says it will bid for all six.) And the giant A380 will begin commercial service with Singapore Airlines in the autumn, albeit two years late.

But there is still no way of knowing whether the A380 will be a “must have” for airlines plying the busiest long-haul routes or a white elephant that never sells enough to make a lot of money. That may be easier to discern when British Airways (BA) chooses between the A380 and Boeing's updated and expanded 747-8 by the end of the year. BA is the world's biggest operator of the 747-400, with 57 in its fleet, and is seen by Airbus as a Boeing loyalist. Yet Mr Gallois points out that no airport needs the A380 more than BA's home base, overstretched Heathrow. He adds that, whereas the 747-8 is the last conceivable version of a 40-year-old design, the A380 has a long life ahead of it.

In the contest between the twin-engined wide-body Boeing 787 and the A350 XWB (standing for extra-wide body), Mr Gallois struggles to be as positive. The 787 is already a sales phenomenon, with over 630 firm orders even before the plane's roll-out next month. The airlines are excited by its revolutionary use of a composite material called carbon-reinforced plastic (CRP). The fuselage, which consists of three huge “barrels” and a nose section, all made by risk-sharing partners and flown to Seattle to be “snapped together”, is both light and low-maintenance because composites neither corrode nor suffer fatigue. For passengers, the pay-off is greater comfort, thanks to higher cabin pressure, more natural humidity and

bigger windows.

Five years behind the 787, which will enter service next year, the A350 contains a similar share of composite material (a bit over 50%), but is based on a less advanced structural design that involves hanging CRP panels on a titanium frame. Boeing acknowledges that the A350 may be as light as the 787, but argues that it will be a less pleasant plane to fly in and a more difficult one to maintain.

This week Steven Udvar-Hazy, the head of ILFC, the largest aircraft-leasing company in the world, ordered another 52 of the 787s, taking his total to 74. Having been influential in persuading Airbus to go for an all-new design for the A350, he says he is still “much more comfortable” with the Boeing. One flaw that can probably be put right is that Rolls-Royce is the sole supplier of engines for the aircraft. Airlines like a choice and Airbus is hoping to bring GE aboard before this deters buyers.

Mr Gallois, who met Mr Udvar-Hazy after his announcement to make the case for the A350, admits that following Boeing's approach would have been too expensive and risky for Airbus. At the same time Mr Gallois bemoaned the advantage his rival has in government-supported research and development. Boeing, he claims, receives about $800m a year—ten times as much as Airbus. Earlier in the week, during meetings with ministers representing the four Airbus partners (France, Germany, Britain and Spain), he asked them to fund half the company's planned €600m-a-year investment in research and technology. He is not hopeful.

Does this mean that theA350 is fated to fail? Not necessarily. For one thing, it is a slightly bigger plane than the 787. Boeing regards it as more of a rival for its popular 777, which will be quite an old aircraft by 2013, when the A350 becomes available. Furthermore, Boeing is already struggling to meet demand for the 787. If Boeing builds 112 of them a year for the next two years, as it plans, it will not fulfil today's order book until the A350 starts flying. For new customers, the 787's five-year head start therefore means comparatively little. Boeing will gradually speed up production, but it is reluctant to repeat the painful mistakes of the early 1990s, when it invested heavily in capacity just as a booming market was turning down.

A still more crucial battle looms over who will come out on top over the successors to the short-haul workhorses of the world's airlines—the A320 and the Boeing 737. It is a fight that both firms give the impression of wanting to postpone for as long as possible, while demand for their existing products remains strong. Scott Carson, Boeing's head of commercial aircraft, says it is a question of waiting until new technology permits a big gain in performance. For his part Mr Gallois talks about a “rupture” between today's designs and what will follow. Both sides agree that anything new must be at least 15% better in nearly every way than today's planes—and that could mean waiting until the middle of the next decade.

But for the moment what matters most for Airbus is that the market stays strong and that it gets to grips with its costs. This may require going further in imitating Boeing's risk-sharing partner (RSP) model than Airbus seems willing to contemplate. According to some estimates, about 80% of the work on the 787 is outsourced to RSPs, saving Boeing both precious development time and working capital.

What this week has shown is that for all the success of the 787 and the mistakes of Airbus, the competitive duopoly of the past decade is still firmly in place. But will things stay that way? That depends partly on whether Airbus really has learnt its lessons and partly on who else wants to get into the game. Boeing reckons that in 20 years, 36% of the market will be in the Asia-Pacific region. For the time being, the Chinese, the Indians and others are happy to be partners and customers. But that could change.

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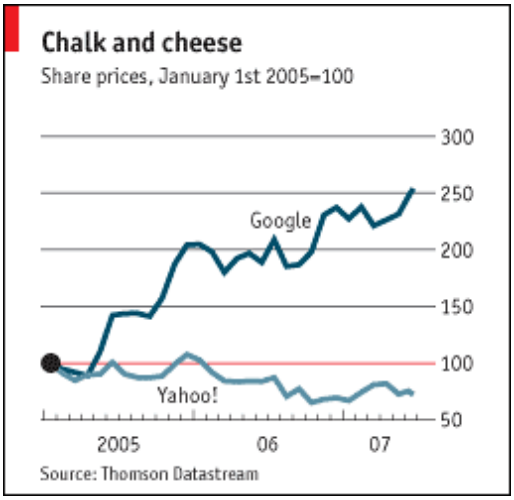
Yahoo!

Yin and Yang

Jun 21st 2007 | SAN FRANCISCO
From The Economist print edition

As its boss quits, struggling Yahoo! puts one of its founders in charge



EVERY year Jerry Yang and David Filo, the founders of Yahoo!, by some measures the world's largest internet firm, dress up as sumo wrestlers and take each other on. (This year Mr Filo won, but Mr Yang says he is pushing for “a recount”.) At any other firm this would be a gimmick requiring awkward laughter from employees. But the fun is genuine at Yahoo!, where the founders are widely respected as much for their exceptionally ego-free personalities as for their prowess as computer geeks. Unlike at Google, which was also founded by two Stanford University students and is now Yahoo!'s arch rival, it has always been understood that Yahoo!'s founders left others to take on the unpleasant task of actually running the firm.

Hence the surprise this week when Mr Yang was promoted from board member and “chief Yahoo” (his official title) to chief executive, replacing Terry Semel, who will stay on as non-executive chairman of the board. That time was up for Mr Semel—a former Hollywood mogul who took over in 2001 and, at 64, is 26 years Mr Yang's senior—had become clear in recent weeks. Yahoo! has fallen badly behind Google in the crucial areas of web search and related advertising, and is trailing its rival in revenues and profits. At Yahoo!'s annual meeting last week, shareholders staged an embarrassing protest vote against Mr Semel and allied board members.

Things may get worse for Yahoo! before they get better. This quarter was supposed to be the first to show gains in profits after a management shake-up last December and the introduction of a new search-advertising technology, called Panama. But Susan Decker, who has been rising through the ranks amid the recent turmoil and this week became president, said Yahoo! was now suffering from slower growth in display advertising, in the past Yahoo!'s strength. This too may have something to do with Google, which recently bought a display-advertising firm, the better to attack Yahoo!'s lead in that market.

Ms Decker, who was an investment banker before joining Yahoo! seven years ago, and was its finance director until December, has for a while been rumoured as a possible successor for the top job. That the board did not give it to her this time around suggests that she may not be considered ready.

But Mr Yang? “I'm ready for this challenge,” he said this week, suggesting he intended to be more than an interim boss while the board searches for an outside candidate. He brings a lot to the job. Yahoo! has been losing the talent war against Google and other rivals, with the defection of disaffected engineers—most notably Farzad Nazem, known as “the Zod”, who quit as Yahoo!'s chief technologist this month. Morale is low. Mr Yang, himself an entrepreneur who clicks with geeks, is likely to be better at keeping engineers engaged and attracting new ones.

Mr Yang may also be better at talking to start-ups that Yahoo! wants to buy. Mr Semel notoriously bungled several important deals, including one with Facebook, the second-largest but “hottest” social-networking website. Where Mr Semel was arguably too old and dithering to hit it off with types such as Mark Zuckerberg, Facebook's 23-year-old boss, Mr Yang could be simultaneously bolder and more laid back, as he hinted this week by promising “speed, clarity and discipline.”

Even so, Mr Yang is not quite like other founders in the technology industry who have returned as boss when their firms hit hard times. Michael Dell personally led his eponymous computer-maker to success before handing over to another boss in 2004, only to return as chief executive this year. So did Apple's Steve Jobs, before being forced out in a boardroom putsch in 1985 and then returning in 1997. Mr Yang has never managed a big and complex company. Whether he would be more or less likely to sell the

company he once founded—to rumoured suitors such as Microsoft, eBay, News Corporation or Time Warner—remains to be seen.

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Pharmaceuticals

On the block?

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Legal victories may leave Bristol-Myers Squibb exposed to a takeover bid

THE past year has not been a good one for Bristol-Myers Squibb (BMS), a middling American pharmaceutical firm widely rumoured to be a takeover target. An investigation into past misdeeds had left its management under a cloud. Then Apotex, a cheeky Canadian upstart, started flooding the market last August with a generic version of Plavix, a blood-thinning drug jointly sold by BMS and France's Sanofi-Aventis that is BMS's top-selling blockbuster and is supposed still to be under patent. The following month the firm was forced to sack its chief executive and chief legal counsel. And federal investigations into the firm's efforts to fend off Apotex have continued to cast a pall.

So it must have come as a relief to the firm's newish chief executive, James Cornelius, to get some good news at last. On June 15th the firm was freed from two years of legal probation, technically known as a deferred prosecution agreement, during which a federal official sat in on board meetings to ensure good behaviour. The same week the firm announced that it had put a separate investigation by the Department of Justice behind it by admitting guilt. The firm's new boss conceded that his firm had hidden from antitrust investigators the fact that former senior executives had made legally questionable overtures to Apotex in an effort to defend the Plavix monopoly.

And this week came what appeared to be the best news of all. On June 19th a federal judge in New York delivered a stinging blow to Apotex by declaring the Plavix patent to be valid until 2011 in spite of Apotex's arguments to the contrary. Although Apotex plans to appeal, many observers reckon the forcefulness of this week's ruling means that BMS may well be in the clear. If indeed the patent is upheld, the $6 billion-a-year franchise will have been saved from devastation.

At first blush this week's Plavix victory appears to be a validation for large drugs companies in their fight against the increasingly litigious generics industry and a strong boost to the independence and success of BMS's management. But the reality is rather more complex. For one thing, this week's ruling on Plavix is unlikely to affect other generic challenges. The facts of the case are so out of the ordinary, argues Jerry Hausman, an economist at the Massachusetts Institute of Technology who testified for BMS, that it is unlikely to serve as a precedent for any other. Generics firms will continue to bring risky legal challenges to patents at ever-increasing rates, he reckons, because they see the game much as punters view a casino: “You have to win big only once to justify many failed attempts.”

What of the suggestion that this string of victories for BMS will put an end to takeover talk? After all, mergers among big drug firms in good health make little sense. Viren Mehta, an industry expert, observes that most mergers among large pharmaceutical firms merely “diminish agility while adding little value.” He argues that BMS, which has a strong pipeline of future drugs, is big enough to succeed on its own.

Yet the rumour mill is still turning. That is because the recent good news has cleared away thorny legal obstacles that made BMS hard to value properly for any potential bidder. The obvious contender to make a bid is none other than its Plavix partner Sanofi, whose chairman is keen on expansion. Its chief executive was believed to be cool to the idea, but his hand may now be forced, as a new obesity drug called Zimulti, a much-trumpeted potential blockbuster that he had championed, has just been dealt a harsh blow by American regulators and may now never make it to market. That BMS pipeline suddenly looks much more attractive, to Sanofi and perhaps to other firms.

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Hyundai in America

Three-point turn

Jun 21st 2007 | DETROIT
From The Economist print edition

The South Korean carmaker, once the butt of jokes, is doing well in America

ASK an average American driver who makes the highest-quality cars and you can expect to be told: the Japanese in general and Toyota in particular. Yet when 27,000 Americans who bought cars late last year were asked how satisfied they were with their purchases, Hyundai of South Korea tied for first place with Japan's Nissan, according to a report published on June 4th by Strategic Vision, a market-research firm. Hyundai's sales in America are expected to exceed 500,000 vehicles this year for the first time. Its second brand, Kia, is doing well too. It is quite a reversal for a company that considered pulling out of America altogether just a few years ago.

Hyundai entered the market in 1986 with a basic car that offered Americans an inexpensive alternative to buying a used car. The low-cost strategy at first worked well and sales took off, but shoddy quality was soon noticed, sales collapsed and Hyundai became the butt of jokes by late-night talk-show hosts. (Jay Leno quipped that filling up a Hyundai doubled its value; David Letterman likened the cars to the creaking *Mir* space station.) Finnbar O'Neill, who took over as the boss of Hyundai's American arm in 1998, stopped the rot by introducing a ten-year warranty—an industry first. This was risky, but Mr O'Neill believed Hyundai had no alternative if it was to rebuild its reputation.

His strategy worked, and quality has since improved to the extent that in last year's J. D. Power Initial Quality Study, which measures problems encountered with new cars within three months of purchase, Hyundai jumped to third place, above Toyota and Honda. In this year's survey, released on June 6th, Hyundai fell back to 12th place, though it is still above the industry average. Neal Oddes of J. D. Power says the decline is probably just a minor setback caused by Hyundai's flood of fresh models, several of them in new market segments, and the opening of Hyundai's first assembly plant in America.

But the greatest test for the brand's new-found strength will come next year, when Hyundai launches a luxury saloon. A thinly disguised prototype, called Concept Genesis, is already making the rounds on America's car-show circuit. It is pitched between the BMW 5- and 7-series or, if you prefer, between the Lexus GS and LS lines. But when the production version appears, it will cost around $30,000 with a 3.8-litre V-6 engine, and less than $40,000 for the more powerful V-8, says John Krafcik, the firm's product-development director in America. In other words, it will cost less than comparable German and Japanese models, which start at $45,000.

The name of this new car has yet to be decided, though Genesis is a strong favourite. And several spin-offs are already under development. One idea is to move even further upmarket. There is “the possibility and potential” for an entirely new, Hyundai-owned luxury brand, akin to Toyota's Lexus, suggests Steve Wilhite, Hyundai's operations chief in America. But the final decision has not been taken. For the time being, the firm is concentrating on launching its new models, seven of which have appeared in the past 24 months. Some of them—such as the Veracruz SUV, the fanciest version of which costs $38,000—have already taken the marque far upmarket.

The new models mean that people who had never previously considered the brand are giving it a chance. Bob Cohen, a jazz promoter based in Detroit, recently bought a Hyundai Santa Fe SUV, having previously bought only European and Japanese vehicles. Two years ago barely one in five American motorists would put Hyundai on their shopping lists; today the figure is nearly one in four. That is still far behind Toyota, which 65% of buyers say they will consider. But given the transformation thus far of Hyundai's fortunes in America, the Japanese will need to keep looking over their shoulders.

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Carmaking in central Europe

Vroom

Jun 21st 2007 | BRATISLAVA AND PRAGUE
From The Economist print edition

Skoda jokes look passé as carmakers pile into a new production hotspot

CARS have been built in the Czech Republic for more than 100 years, ever since Vaclav Laurin and Vaclav Klement switched from making bicycles to producing four-wheeled vehicles. Laurin & Klement is now better known as Skoda, but the duo's manufacturing base remains in Mlada Boleslav, at the heart of a region that is fast becoming a new carmaking powerhouse. Total production last year in the Czech Republic, Slovakia, Slovenia, Poland, Hungary and Romania was 2.4m vehicles—more than Britain (1.6m) and just behind Spain (2.8m).

The dominant producer in the region is the Czech Republic, where production has increased from 450,000 in 2004 to 850,000 in 2006, overtaking Poland. But it may in turn be overhauled by Slovakia, which produced 295,000 cars in 2006, and whose fortunes have been boosted by the arrival of Kia, a South Korean carmaker, joining PSA Peugeot Citroën and Volkswagen. Indeed, it is thought that Slovakia, with a population of 5.4m, could become the world's leading carmaking country measured in output per capita. Kia's greenfield factory in Zilina, which started operating at the end of 2006, has the capacity to produce 300,000 cars a year. Peugeot's factory has a similar capacity. And Volkswagen, which builds SUVs in Slovakia for export, produced 238,000 cars last year.

All this has attracted a new wave of international suppliers. Many South Korean firms have followed Kia to Slovakia and will soon start to supply its parent company, Hyundai, which has just started building a €1 billion ($1.3 billion) new factory over the border in the Czech Republic, due to open in October 2008. (Hyundai and Kia have done something similar in America, positioning their supplier base between their two manufacturing sites.) The Czech government, which has provided around €200m in incentives, hopes this will create a total of 12,000 new jobs in a region with high unemployment. A joint venture between Toyota and Peugeot, which got going in the country two years ago, created 3,000 jobs and now makes 300,000 cars a year, 99% of them for export.

Central Europe is an attractive place to build cars for many reasons. Labour costs are lower than elsewhere in Europe, many countries now have established car-parts industries, and Japanese and South Korean firms value the proximity to western European customers. “If we try and do everything from South Korea, we cannot know what exactly European customers want,” says Bae In-Kyu, the boss of Kia's Slovakian plant. Making cars in Slovakia also cuts delivery times and sidesteps import taxes.

But it is not all good news, warns Marcel Brouiller of Renault. Recruiting staff is getting harder, and infrastructure in the region is under strain. Most of the roads that serve Renault's plant in Novo Mesto, 40 miles east of Ljubljana, are only single carriageways. Even so, Laurin and Klement would surely be delighted that their legacy lives on.

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Executive pay in Europe

Minder's mission

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A Swiss businessman is leading a crusade against big pay packets

Tribol

Scourge of Switzerland

“THE main goal of our campaign is more shareholder democracy,” says Thomas Minder, the boss of Trybol, a Swiss cosmetics company. For several months he has been collecting signatures to call a national vote to amend Swiss law and impose greater transparency and accountability in the field of executive pay. The most controversial of his 25 proposals is the call for a binding vote by shareholders on the total amount of pay for members of a firm's management board, supervisory board and advisory board.

This would give shareholders more say on executive pay than in any other European country. British law has required a non-binding vote on company remuneration reports since 2003. In France shareholders have a non-binding vote on attendance fees of members of the supervisory board. The Dutch and the Swedish governments went furthest by introducing binding shareholder votes on remuneration reports. But none of this is enough for Mr Minder. “We want shareholders to vote on three specific sums,” he says.

The debate on bosses' salaries differs from country to country in Europe. In France it tends to erupt whenever the public thinks it has spotted greedy executives at troubled firms. Nicolas Sarkozy, the new French president, is cracking down on “golden parachutes” and introducing new rules on share options next month following an outcry over the €8.5m ($11.4m) payoff to Noël Forgeard, former co-CEO of the European Aeronautic Defence and Space (EADS) company, the parent company of Airbus. Mr Forgeard, who was pushed out amid a crisis at Airbus caused by the delay to its A380 super-jumbo, was also under investigation by French regulators for having exercised share options just before Airbus's problems emerged.

Germany experienced a wave of hostility against bosses' apparent greed in 2004 when Josef Ackermann, the Swiss boss of Deutsche Bank, stood trial on charges of “breach of trust”. His alleged crime was to have agreed, as a member of Mannesmann's supervisory board and compensation committee, to a deal to pay Mannesmann executives bonuses of €57m after the German telecoms firm was taken over. More recently boards at Deutsche Telekom and at Siemens, Europe's biggest engineering firm, opted to share some of the pain experienced by workers as a result of restructuring measures by giving up pay increases or forfeiting one or two months' worth of their salaries.

Yet Switzerland has so far not experienced such (very un-Swiss) public rows. This is changing thanks to Mr Minder, who attends general meetings of Swiss multinationals to gather support for his cause with rabble-rousing speeches. He says Swiss bosses are the highest-paid in Europe. Rules on transparency and disclosure of executive pay are less stringent than in other European countries, though many blue-chip companies disclose more information than required by Swiss law.

Mr Minder's pet target is Daniel Vasella, the boss of Novartis, a pharmaceuticals giant. Mr Minder claims that Mr Vasella is the highest-paid boss of a listed company in Europe. At the annual shareholders' meeting of Novartis in early March, Mr Minder pointed out that with an annual pay package of SFr44m ($35.6m), Mr Vasella is today paid 30 times more than when he was appointed in 1996. Novartis says Mr Vasella was paid SFr21m last year—Mr Minder puts a far higher value on share options and restricted shares—so that his salary increase has not been so great. But bosses of other big European firms are paid less. Jürgen Strube of BASF, a German chemicals giant, gets a base salary of €150,000; Wolfgang Mayrhuber of Lufthansa, Germany's national airline, receives €770,000 as base salary. Mr Minder wants Mr Vasella's pay cut in half and his golden parachute, worth five years' pay, to be nixed. Novartis says that Mr Vasella's eventual successor will not be offered a golden parachute.

To succeed with his call for a plebiscite, Mr Minder must collect 100,000 signatures by May 2008 so that his proposals can be put to both houses of Switzerland's parliament. Lawmakers can then come up with a counterproposal or allow a popular vote on Mr Minder's proposals. If all goes according to Mr Minder's masterplan, Switzerland's tradition of direct democracy could pave the way for more shareholder democracy.

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Barilla

Big portions

Jun 21st 2007 | PARMA
From The Economist print edition

America's role in the rise of the world's biggest pasta-maker

Alamy

Coming to a plate near you

THERE is something American about the scale of Barilla, the world's leading pasta-maker. Ten years ago when it wanted to do more than provide Italian families with spaghetti and other kinds of pasta, it headed west. It is now the leader in America, with 25% of the market. This month Barilla opened its second factory in America, in Avon, in upstate New York. It will produce around 50,000 tons of pasta a year, and there are plans to double its capacity within two years to bring its output almost level with that of Barilla's other American factory, in Ames, Iowa. “We chose Ames because it is near the wheat we need, Avon because it is close to our main markets,” says Guido Barilla, chairman of the family-owned group.

Despite Barilla's achievements in America, its stronghold is still in Italy, where it has around 40% of the market for semolina pasta and 45% for egg pasta. There too the firm does things on a massive scale. The pasta factory that dominates the countryside near Parma in northern Italy, where Barilla has its head offices, is the world's biggest. Its 19 production lines made more than 300,000 tons of pasta last year, or around a quarter of the firm's global output, including 10,000 tons of tortellini, a local speciality. A new mill for producing semolina flour from durum wheat, the largest of its type in the world, will begin supplying the factory next year. Barilla also has two other factories in Italy, and one each in Greece, Mexico and Turkey.

Yet pasta is, oddly, not Barilla's main business. When Pietro Barilla opened his shop in Parma in 1877, he sold not just pasta but bread, too. The company got out of breadmaking in 1952, but Mr Barilla unwisely returned to it in 2002 by buying a controlling stake in Kamps, a German bread company. “It seemed a great opportunity from the outside, but it was a disaster,” says Mr Barilla, who is planning another exit from bread. Kamps contributed €1.2 billion ($1.5 billion) of Barilla's turnover of €4.1 billion last year, but nothing to its operating profit of €480m. Another diversification has worked better. In 1965 Mr Barilla's father opened a factory to make rusks and bread sticks, and sales of rusks, biscuits and crackers, at €1.1 billion last year, were double those of pasta.

Stranger still is the most profitable part of the group, Mulino Bianco, a bakery that was an American creation. In 1971 the Barillas sold their company to W. R. Grace, an American firm, which sold it back to the family eight years later, having created Mulino Bianco and launched an advertising drive to promote it and Barilla's other brands. Now the firm is once again looking to America for growth. Enthusiasm for the Mediterranean diet has almost trebled the typical American's consumption of pasta over the past 20 years. But even though Americans now eat around 9kg of pasta per head every year, Italians eat three times as much.

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Face value

The outsourcerer

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From The Economist print edition

If you want to see where Indian outsourcing is going, keep an eye on Krishnan Ganesh

Get article background

"WE ARE addressing the bottom of the pyramid," says Krishnan Ganesh, an Indian entrepreneur, of his latest venture, TutorVista. It is a phrase that cheekily calls to mind the mass poor in his native country—but TutorVista, an online tuition service, is aimed squarely at customers in the developed world. Mr Ganesh founded the company in late 2005 after spotting that personal tutoring for American schoolchildren was unaffordable for most parents. His solution is to use tutors in India to teach Western students over the internet. The teachers all work from home, which means that the company is better able to avoid India's high-wage employment hotspots. TutorVista further hammers home its labour-cost advantage through its pricing model. It offers unlimited tuition in a range of subjects for a subscription fee of $100 per month in America (and £50 a month in Britain, where the service launched earlier this year) rather than charging by the hour. Tutors are available around the clock; appointments can be made with only 12 hours' notice.

It is too early to gauge the impact of the service on educational outcomes, says Mr Ganesh, but take-up is brisk. TutorVista has 2,200 paying subscribers at the moment (most of them in America) and hopes to boost that figure to 10,000 by the end of the year. The company is expected to become profitable in 2008. Even cheaper pricing packages are on the way. Launches of the service are planned for Australia and Canada. Mr Ganesh is also investigating the potential of offering tuition in English as a second language to students in South Korea, where high rates of broadband penetration make the market attractive. Get that right, and China looms as an even bigger prize.

Mr Ganesh is gambling that the benefits of offshored services can be sold directly to consumers. Building trust for an unknown Indian brand is the biggest difficulty he faces. Having reassuring local managers fronting his operations in America and Britain certainly helps; so too does the fact that TutorVista's teachers are experienced hands, with an average age of 45 (many of them are retired). Quality control is vital: sessions are recorded and parents, student and teacher share a monthly call to discuss progress. As for the thorny problem of accents, Mr Ganesh points out that much of the communication is non-verbal—teachers and students write on a shared virtual whiteboard.

Mr Ganesh has a habit of spotting the next stage in the evolution of India's outsourcing industry, and his own career encapsulates its rapid development. He started in 1990, just as the Indian economy was being liberalised, by founding IT&T, a computer-maintenance business serving local firms. It was a brave decision. Capital was scarce and Mr Ganesh tackled cashflow problems by getting companies to pay their maintenance premiums upfront. Red tape proliferated and it took 26 clearance permits and nine months of battling to get IT&T up and running. Entrepreneurs were regarded with suspicion, even in their own homes. Mr Ganesh says the strongest opposition he encountered was from his mother-in-law, who had blessed his marriage to her daughter because of his stable job in corporate planning.

By the time he stepped down from a hands-on role at the company in 1998, IT&T had 400 people, 16 offices and a turnover of 200m rupees ($4.8m). His next role, a two-year stint as the boss of a telecoms joint venture between Britain's BT and Bharti Enterprises, was more conventional. But before his in-laws could start to relax, the entrepreneurial itch flared up again. Realising that the internet would enable India to become a provider of outsourced services to overseas firms, Mr Ganesh and his wife founded a firm to offer technical support via e-mail for customers of dotcom start-ups. That market never materialised but the new firm, CustomerAsset, survived by becoming a call-centre business serving "old-economy" Western firms. It was acquired by ICICI, a business-process outsourcing firm, in 2002 for

$22m.

And for my next trick...

After a year-long lock-in period with ICICI Mr Ganesh was free to scour the horizon for his next venture. The call-centre market had by this time become far more competitive, so Mr Ganesh identified more complex, knowledge-intensive services as the next frontier in offshore outsourcing. This time an opportunity came directly to him when the founders of Marketics, a data-analysis and modelling start-up, asked him to invest in their business and to become their non-executive chairman. “They wanted some grey hair,” says Mr Ganesh. The company thrived and was sold in March for $65m.

By then, intrigued by the potential for applying the offshoring model to a consumer environment, Mr Ganesh had already turned his energies to TutorVista. Once again, he appears to be ahead of the curve. A new report from Evalueserve, a research firm, estimates that annual revenues from “person-to-person offshoring” by individuals and small businesses will top $2 billion by 2015, up from some $250m now. In addition to tuition, other services that are suited to this model include tax planning, interior design and administrative support. Mr Ganesh says that TutorVista will not be his last venture in this area.

Whatever he does next, starting a new firm will be a lot easier than it was back in 1990. Financing is more widely available: TutorVista's backers include the Indian arm of Sequoia Capital, a stalwart of Silicon Valley. Employees are more willing to consider joining start-up firms. Regulation is lighter, too. The paperwork required to set up TutorVista was completed in two weeks. But the improved business climate also has drawbacks—rivals are better funded and there is more competition for talented people. Presumably Mr Ganesh's success has, by now, overcome family opposition? “We have a saying in India,” he responds. “Behind every successful man is a devoted wife—and a very surprised mother-in-law.”

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Award

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From The Economist print edition

Andreas Kluth, our technology correspondent in San Francisco, has won this year's Mirror Award for the best subject-related series of articles for his special report on new media, "Among the Audience" (April 22nd, 2006). The Mirror Awards recognise reporting, analysis and commentary that further the public understanding of the media industry.

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Tesco

Fresh, but far from easy

Jun 21st 2007 | LONDON AND PHOENIX
From The Economist print edition

Armed with powerful retailing science, Britain's most successful supermarket is making an audacious bid to change the way America shops and eats

Eyevine

A FORLORN shop facing a dusty car park in one of the poorest parts of Phoenix, Arizona, is an inauspicious place to start a closely watched experiment in global retailing. Yet this is where Tesco, Britain's biggest supermarket group, will seek to establish its beachhead in the world's richest grocery market.

Later this year Tesco will open at least 21 stores in this arid city and plenty more—it will not say how many—in Las Vegas, San Diego and Los Angeles. It plans to pepper some of America's fastest-growing states with Fresh & Easy local groceries at a rate of three a week. Tesco has identified as many as 100 sites to begin its £250m a year ($500m) campaign. Rumour has it that a new warehouse just east of Los Angeles could alone supply some 400 stores.

The biggest aisles

Retailing giants, 2006

	Wal-Mart	Carrefour	Tesco
Revenues, $bn	344.9*	97.7	87.4†
Net profit, $bn	11.3*	2.8	3.6†
Market capitalisation, latest, $bn	200.5	49.3	68.3
Employees worldwide	1.9m	456,295	413,061
Number of stores in home country	4,068	3,879	1,988
Sales outside home market, % of total	22.3	52.3	23.4
Market share in home market, %	28.8	24.9‡	31.3

*Year ending January 2007
†Year ending February 2007 ‡2005

Sources: Company reports; Thomson Datastream; IGD

By American retailing standards, Tesco is merely dipping a toe in the ocean. Even so, the consequences could be enormous. Tesco is a formidable retailer, having transformed itself from Britain's third-ranked supermarket by sales to the third-largest in the world, after America's Wal-Mart and France's Carrefour (see table). As it has done so, Tesco's share of the grocery market in Britain has climbed above 30% and, like Wal-Mart in America, it has begun to face criticism of its market power.

That is one reason why Tesco has to venture abroad. Another became clear this week, when the

company reported how sales growth at its British stores slowed sharply in the first quarter, because of subdued consumer spending and increased competition. It shares fell by almost 5% on the news. But this was compensated for by international sales, which grew by 25%. Tesco is expanding in places like eastern Europe and China, where it tailors supermarkets to local conditions.

In America it is trying something completely different. The operation is veiled in secrecy and furtiveness—Tesco is anxious not to tip its hand to competitors. When it tested the layout of a mock store in Santa Monica, it did so hidden from view in a warehouse. It stocked the shelves with food shipped in from America's East Coast and people were told it was just a film set.

The secrecy and the speed with which Tesco is expected to open its new stores points to the risks. If Tesco gambles small and wins, competitors will have time to copy it before it reaches critical mass. Placing a big bet is more dangerous, but it may be the best way to exploit a model that can be scaled up rapidly into thousands of stores across a market that rewards innovation like no other. “In retailing there aren't huge barriers to entry,” says Sir Terry Leahy, Tesco's chief executive. “That's one of the reasons you can't hang around and trial this thing. You have to launch and go.”

Some people have already decided to bet on Tesco's success. Last year Warren Buffett, one of America's most successful investors, revealed that his Berkshire Hathaway company had bought almost 3% of Tesco to become one of its largest shareholders. Mr Buffett admires careful planning and Tesco has done plenty of that.

Into their cupboards

The company has spent years gathering detailed information on every aspect of American life. Most retailers would think they had done their homework after the usual focus groups and surveys, but Tesco went much further. Researchers, including a small cohort of top executives, spent two weeks living with 60 American families. They poked around in their kitchen cupboards, watched them cook and followed them as they shopped. “They'd been studying the city for about a year before they came to us,” says Scott Motley, who works for the city of Phoenix, which with the Greater Phoenix Economic Council helped Tesco find places to put stores.

Even the stores seem part of a grander plan to keep gathering data. Take the patchwork of districts where Tesco plans to build some of the first. In central Phoenix it has chosen some of the poorest parts of town. Families living within a mile of one store have a median annual income of just $37,500 (against about $44,000 for America as a whole). In nearby Chandler, a middle-class area, it will be building its stores within reach of the city's richest inhabitants. There, median incomes run to about $93,000. This torrent of comparative data is central to the plan: Tesco is setting out to change the way Americans shop and eat.

As in most retail markets, American stores are splitting into those that sell luxury goods and those that sell cheap ones. Both Whole Foods Market (luxury) and Wal-Mart (cheap) are among America's fastest-growing stores (although they have slowed down a bit recently). Retailers catering to the mid-market such as Kroger, Safeway and Albertson, three of America's biggest grocers, have been squeezed. They come under pressure to cut prices and margins when Wal-Mart moves into the area. And they are simultaneously pressed to invest in swanky wood-effect polished floors and sumptuous fresh-produce displays to stop their richer customers decamping for posher places.

Social shoppers

Tesco's offering in America will swim against this tide. It is aiming Fresh & Easy squarely at the middle market. The firm is hoping to repeat its success in attracting shoppers from all the main social groups in Britain, where social class until recently played at least as big a role in determining where people shopped as price and convenience did. Tesco will also be a pioneer in two other important ways: the size of its stores and their range of goods.

Most Fresh & Easy outlets will be relatively small, at about 10,000 square feet. Although about the same sales-floor size as the average Walgreen's, a chain of drugstores, most food retailers in America are either much bigger (six Fresh & Easy's would fit into a typical supermarket and ten into the average Wal-Mart), or much smaller (each is about three times the size of a 7-Eleven convenience store).

Does size matter? In America's lightly regulated supermarket industry, most shoppers in all but the deepest backwoods live just a few minutes' drive from a large supermarket. The chances are the store has acres of parking, is open all night and has a good selection of whatever you might need: prescription medicines, dog food and piping-hot meals that have been cooked in the store.

Convenience, however, has many dimensions. Tesco is betting that there is demand for smaller stores closer to home with fewer products, making it easier to find things. People in too much of a rush to stop at a supermarket use tiny outlets such as 7-Eleven, of which there are close to 1,200 in California alone. But their range is limited. Retail Forward, an American consultancy, reckons nearly 40% of convenience sales come from cigarettes and tobacco, followed closely by beer and wine. As for nutrition, most offer little more than snacks and frozen pizza. “The typical American convenience-store consumer would be Homer Simpson,” says Ira Kalish, a retailing expert at Deloitte, an accounting firm. “No one has done convenience and quality food together.”

As for products, Tesco's second innovation will be a range of preservative-free “ready meals” that are familiar to British consumers yet barely exist in large parts of America. “There's a big hole in the American market,” says Rajiv Lal, of Harvard Business School. “American supermarkets have not been innovative with prepared foods. You can't eat them more than three days in the week without eating the same stuff. But I suspect there are people in Britain who live off prepared meals from Marks & Spencer for three weeks on end.”

So why have British supermarkets led America's in easy meals? Generals like to say that amateurs study tactics and professionals study logistics. The same is true for retailing. In trying to compete with discount retailers such as Wal-Mart and Costco in a large country with good roads and cheap land that lends itself to big-box retailing, America's supermarkets have concentrated mainly on trying to take costs out of their supply chains. Labour is also cheaper in America. This has encouraged supermarkets to make two sorts of food: that which lasts long because it has been dried, canned, frozen or otherwise preserved, and that which is prepared from raw ingredients on site.

Sandwiches to ready meals

British supermarkets, in contrast, operate on a small, crowded island with restrictive planning laws. Whereas American stores are good at moving goods hundreds of miles and keeping them cheap, British retailers specialise in regular, frequent deliveries to heaving city-centre stores. Their supply chains are more sophisticated because they have to be. Stores can be so small that they have to switch from selling sandwiches at lunchtime to selling ready-made suppers in the afternoon.

Expensive labour and a shortage of space have encouraged British retailers to seek economies of scale from centralised food preparation. Rather than cooking on site, they make a wide range of meals that can last for a couple of days. These are not just staples such as macaroni cheese or lasagne. A typical London supermarket now stocks more than 50 different meals, including treats such as organic beef in wine, Keralan prawn curry and Asian noodles with vegetables.

Although some British supermarkets have done a better job at seizing the top of the market and others the bottom, none has surpassed Tesco at concocting a wide enough range of meals to suit every taste. Once, Tesco was stuck downmarket selling cheap fodder to working-class mums. Now its market share is almost as large as the combined share of its two closest rivals: Asda, which is owned by Wal-Mart, and J. Sainsbury.

Tesco's rise is at least partly thanks to its knack of quickly responding to trends. It was the first of Britain's big supermarkets to embrace convenience stores. And it has been a clever innovator with its supply chain. Take, for example, its introduction of trucks with internal partitions for frozen, chilled and ordinary goods. As simple as the idea sounds, Tesco could thus replace three deliveries with one, which made it possible to sell groceries profitably in small stores at supermarket prices.

But Tesco's biggest innovation has been in the way it collects and uses customer data from its Clubcard, a loyalty programme. Many retailers use clubs to provide nothing more sophisticated than a discount to customers as they pay for their goods. Because rivals can easily match this, it reduces profit margins for all, says Deloitte's Mr Kalish.

The Tesco scheme mails discount vouchers to customers to encourage them to return. More importantly, it tracks every purchase to build one of the world's largest databases. This finds correlations between

purchases, allowing Tesco to finely tune the product range in each store. Sales of pickled vegetables, for instance, may suggest Polish immigrants have moved in, prompting it to stock *barszcz*, meatballs and sauerkraut.

As a result, its stores in Asian areas of Britain offer Bollywood movies, curry spices and large sacks of rice and flour. Its stores in London's wealthiest parts, meanwhile, are stocked with ripe organic avocados, dainty packs of mange tout and steaks in fancy sauces.

Tesco's database also provides insights into how customers see the company. When it revealed that families were not buying nappies or other baby supplies in their weekly shop, further research showed they were instead paying some 20% more to buy these items at nearby Boots pharmacies because they trusted the Boots brand when it came to looking after their babies. So Tesco began a baby club, offering advice on pregnancy and mothering. Within two years almost four of every ten expectant parents in Britain were members and the firm had seized almost a quarter of the mother and baby market, according to “Scoring Points”, a book on the Clubcard scheme.

Some quirky correlations also pop out of the data. Take the fact that families buying baby wipes also buy more beer, mainly because fathers of young children have less time to go to the pub. Tesco's response: mailing families with infants discount coupons for toys and beer.

Tesco's entry into America will be “a wake-up call to the rest of the supermarket industry, including us,” says David Lannon, president of the North Atlantic Region for Whole Foods Market. “Tesco is better than the major supermarkets in the US. They're cleverer and more efficiently run.”

That does not mean that the British model will be easy to transfer. At least one reason behind the success of Tesco's convenience stores is public transport. Many are near, or sometimes even inside, underground and railway stations, making it easy for commuters to pop into a store to grab a meal on their way home.

Public transport also seems to shape consumer behaviour in two other ways. The first is that it encourages many small shopping trips, because purchases have to be carried. This in turn prompts consumers to favour perishable produce over frozen. The second is that it discourages the purchase of hot meals, either of the sort sold in many American supermarkets or fast-food outlets. Some, however, worry that this accident of British geography may have coloured Tesco's view of the ready meals it is proposing to sell through its Fresh & Easy stores in America.

Feeding the kids

Will America's soccer moms be as willing to stop their cars to grab a ready meal on the way home as British mums are when they jump off the Tube? Tesco thinks they will. For a start, worries about obesity have spawned more interest in healthy eating in America. Demand for organic products is soaring—even Wal-Mart has introduced them. Whole Foods Market has revolutionised the way fresh produce is sold in America, partly by stealing some merchandising tactics from the clothing industry, such as the use of stage lighting and arranging fresh fruit and vegetables into complementary blocks of colour.

Tesco is also reacting to environmentalism by presenting itself as both healthy and green. Its distribution centre will have the largest solar-panel roof in California, its stores will use low-energy LED lighting and its refrigerated trucks are designed to use less fuel.

ptpx

Tesco is optimistic that shopping habits in America point its way. “When you look at Americans, they shop more frequently than British people and they have to shop around many more retailers, because no one retailer gives them what they want,” says Sir Terry. “The opportunity [for us] is that they will shop less often if they get more of what they want in one place.”

Yet for all Tesco's confidence, few retailers have successfully broken into a mature grocery market in a developed country. Sainsbury's, Marks & Spencer and Carrefour are among the many European retailers that have tried their luck in America and walked away in frustration. This is in part because food retailing, with a few exceptions, is still a local industry.

Laxman Narasimhan and Tim McGuire, of McKinsey, a consulting firm, reckon that economies of scale in grocery retailing, such as distribution and advertising, are mostly local. “A 40% market share in one market is far more profitable than 10% shares in four markets,” says Mr McGuire.

And unlike the world of clothing, where a global consumer culture has created global brands such as Zara, Gap and H&M each with thousands of stores across the world, the internationalisation of grocery retailing is constrained by the way that food tastes and shopping habits differ vastly from country to country.

Until recently few retailers had been good at changing their offering to take account of so many foreign quirks while still enjoying the benefits and efficiencies of being big. This is especially true of American retailers, which have grown fast at home by finding a format that works and then rapidly cloning it. But they too have often stumbled abroad: for instance, Wal-Mart had to give up in Germany. “Europeans are better at this because they benefit from their history of colonisation,” reckons Harvard's Mr Lal. “They have learned the lesson that you have to let the local people run the local business; that you can collect the taxes but you don't run the local administration.”

...to build a giant database

Even if Tesco has read the American market correctly, it will still face stiff competition from two sources. The first is from American supermarkets which will try to copy Tesco's ideas, despite having supply chains that are poorly configured for doing so. Some are already trying to get ahead: Ralphs, a chain owned by Kroger, recently opened a new store in Irvine, California, as part of a concept it calls Fresh Fare. The other source of competition is the thousands of fast-food outlets dotted across the areas it is trying to enter. As convenient as the new Fresh & Easy outlets will be, it is still hard to beat a drive-through window if you want a quick meal.

“Clearly it's high risk,” agrees Sir Terry. “But we've carefully balanced the risk. If it fails it's embarrassing. It might show up in my career [and] it'll cost an amount of money that's easily affordable by Tesco—call it £1 billion if you like. If it succeeds then its transformational.”

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The subprime meltdown, continued

Bearish turns

Jun 21st 2007 | NEW YORK
From The Economist print edition

Satoshi Kambayashi

A prominent hedge fund's implosion revives fears about the poisonous influence in America's subprime-mortgage market

“THEY kept pointing to the juicy yield, but our guys soon saw the paper for what it was: nuclear.” Thus one chief executive, recounting his investment firm's decision to spurn an offer of securities backed by subprime (low-quality) mortgages from Bear Stearns, a large investment bank. The radiation appears to have seeped out at its source, leaving two of Bear's own hedge funds terminally sick. Coming less than two months after UBS, a Swiss bank, closed a fund that had lost over $120m as the subprime market crumbled, the incident is a clear sign that concern is shifting from small, specialist lenders—dozens of which have gone bust—to the supposedly more sophisticated Wall Street firms that package, distribute and trade bonds tied to home loans.

Of the big securities houses, Bear is the most exposed to subprime. So no one was shocked when it announced a 10% fall in underlying profits for the latest quarter. But the fate of its year-old, unfortunately named High-Grade Structured Credit Strategies Enhanced Leverage Fund and its sister fund, the High-Grade Structured Credit Strategies Fund, has raised eyebrows. Run by Ralph Cioffi, an industry veteran, they were thought to be among the shrewdest actors in the mortgage-debt markets. Their downfall suggests that hedging at the highest levels is not as adept as it might be.

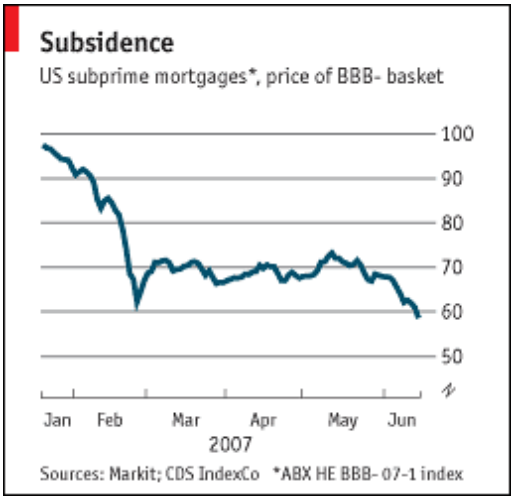
The enhanced-leverage fund lost 23% of its value in the first four months of the year as the subprime market collapsed, then stabilised, then fell again. The fund's problems were compounded by its borrowings, which were ten times bigger than its $600m in capital. This made it more vulnerable when things went wrong.

Last week Bear's funds, besieged by disgruntled investors, offloaded securities with a face value of at least $4 billion to free up capital. This fire sale was not enough for one creditor, Merrill Lynch, which seized collateral and threatened to auction it off to cover its losses.

Bear persuaded Merrill to stay its hand by agreeing to negotiate a rescue with a consortium of banks. At one point an injection of $500m in new capital looked possible, with Bear itself offering to lend an additional $1.5 billion. But the plan fell apart. On June 20th Merrill began hawking some of the funds' assets to other hedge funds, while other creditors, such as JP Morgan Chase and Deutsche Bank, worked with Bear to unwind their positions. But there were few buyers for the bank's subprime-backed debt, even the highest-rated paper.

The sale weighed on the shares of homebuilders and mortgage insurers as well as lenders. It raises the prospect of a wave of repricings, as banks and funds take a fresh look at their asset-backed holdings. Many of these are illiquid and still booked at their original, inflated prices. Assigning new values to them will be tricky, not to mention bad for banks' share prices.

This week an index that tracks bonds consisting of subprime loans made in 2006 dipped below 60 for the first time, down from 97 in January (see chart). One cause was the continuing deterioration of loan performance as mortgage rates have risen: almost one in five subprime mortgages are now delinquent by more than 30 days or in foreclosure. The index also reflects fears that other large funds will suffer the same ignominy as Bear's. The number of hedge funds focusing on mortgage debt ballooned along with the underlying market in 2005-06. Their woes are the latest “morbid preoccupation” of subprime investors, says Michael Youngblood, an analyst with Friedman, Billings, Ramsey.



Other squabbles are adding to the drama. A group of hedge funds recently urged regulators to investigate banks, including Bear, for alleged manipulation of the market for mortgage bonds and the booming derivatives linked to them, such as collateralised debt obligations (CDOs). The funds accuse the banks of protecting their own positions in derivatives trades—in which hedge funds are often counterparties—by propping up the prices of dodgy mortgages bought under the pretext of helping struggling borrowers.

The recriminations are likely to grow as rating agencies, slow to act at first, bow to the inevitable and revise their opinions. In the first of what is expected to be a wave of downgrades, Moody's has cut the rating of 131 subprime bonds because of higher-than-expected defaults. It is reviewing hundreds more. Meanwhile, as more loans turn bad, it is dawning on the banks, hedge funds, insurers and pension funds that hold “senior” (highly rated) portions of CDOs that their investments may not be as bullet-proof as they thought. CDOs offer higher yields than similarly rated mortgage-backed bonds, but are more susceptible to losses if the underlying loans decay.

With some $100 billion of adjustable-rate subprime mortgages due to reset to higher rates by October, investors are likely to remain twitchy. Moreover, lenders have tightened underwriting standards across the board for both prime and subprime mortgages, making it harder for borrowers to refinance loans.

There is also another way in which owners of mortgage-backed securities could be hurt. As regulators debate the merits of new rules on abusive lending—the Federal Deposit Insurance Corporation is keen, the Federal Reserve sceptical—some politicians in Washington, DC are pushing the notion of “assignee liability”, which would hold secondary-market investors responsible for homeowners' losses. Never mind that the most forceful attempt to introduce this so far, in Georgia in 2002, ended in disaster. As securitisation dried up, so did the primary-lending market. The law was amended in 2003.

But perhaps the most worrying thing for financial institutions holding mortgage-backed paper is not the subprime market itself, but the unnerving parallels with an even bigger one to which they are also exposed: leveraged loans to companies. As Daniel Arbess of Xerion Capital Partners points out, corporate lending's giddy leverage echoes the high loan-to-value ratios in subprime; the explosion of “covenant-lite” deals and payment-in-kind notes mirrors that of interest-only and negative-amortisation mortgages; and leveraged buy-outs have their own form of mortgage refinancing in the so-called dividend recapitalisation. Subprime, says Mr Arbess, might well be “a dress rehearsal for something bigger and scarier.”

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Agricultural commodities

Biofuelled

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From The Economist print edition

Grain prices go the way of the oil price

EVERY morning millions of Americans confront the latest trend in commodities markets at their kitchen table. According to the United States Department of Agriculture, rising prices for crops—dubbed "agflation"—has begun to drive up the cost of breakfast. The price of orange juice has risen by a quarter over the past year, eggs by a fifth and milk by roughly 5%. Breakfast-cereal makers, such as Kellogg's and General Mills, have also raised their prices. Underpinning these rises is a sharp increase in the prices of grains such as corn (maize) and wheat, both of which recently hit ten-year highs. Analysts are beginning to ask, as they have of oil and metals, whether higher prices are here to stay.

On the face of it, that is an odd question. After all, if the world runs short of corn or wheat, farmers can simply grow more, weather permitting. That is exactly what they have been doing. In the coming year, the International Grains Council, an industry group, estimates that global production of grains will reach a record of 1,660m tonnes, well above last year's figure of 1,569m. But demand for grain is growing even faster. The council reckons it will reach 1,680m tonnes this year. In three of the past four years, demand has exceeded supply.

The culprit is the growing use of grains to make biofuels, such as ethanol. Most grains are used as food either for people or for livestock. But the increase in human consumption has been slowing for decades as population growth moderates. Demand for animal feed, meanwhile, has grown steadily, as more people in booming countries such as China grow rich enough to afford meat.

Demand for biofuel feedstocks, by contrast, is soaring. The amount of corn used to make ethanol in America has tripled since 2000; ethanol distilleries now consume a fifth of the country's corn crop. And America is only one of 41 countries where governments are encouraging the use of biofuels to reduce oil consumption.

As a result, demand for grains has accelerated. During the 1990s, when oil was cheap and biofuels unheard of, demand grew by 1.2% a year, according to Goldman Sachs. But in recent years, it has increased by 1.4%, and over the next decade, Goldman projects, it will rise by 1.9% annually.

Farmers are struggling to keep up. The Economist Intelligence Unit, a sister company of *The Economist*, projects that demand for corn, at least, will continue to exceed supply until at least 2009. Moreover, even to produce as much corn as they are now, farmers are growing less soya and wheat, and so pushing up the prices of those crops too. With all the main grains to feed poultry and livestock becoming more expensive, the cost of meat and eggs is rising, and so it goes on.

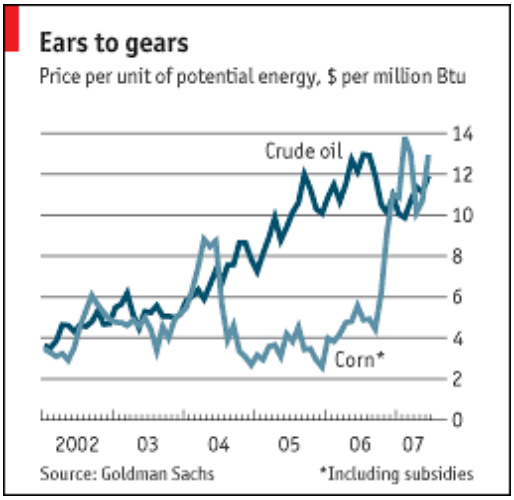
When demand was growing more slowly, farmers could meet it through gradual improvements in their yields. But to cope with today's boom, yields will have to rise much faster, or farmers will have to bring more land into production.

Both are possible. Greater adoption of genetically modified strains of corn and wheat, for example, could improve yields. But they are expensive and politically controversial. There is also quite a bit of fallow land to be sowed, especially in developing agricultural powers such as Brazil and Ukraine. But those countries are far from the biggest markets and their idle land tends to be found in areas with poor transport links. A strong price signal will be needed to overcome such obstacles and induce extra supplies.

But even if new land is planted, argues Jeffrey Currie of Goldman Sachs, it will not necessarily reduce the cost of grains. Since high oil prices and generous government subsidies ensure that biofuels are profitable, any extra grain will be used to make more of the stuff. That will not dent the oil price, since the volumes remain tiny compared with global oil consumption. Instead, the price of

biofuels has risen to that of petrol, and the price of corn and crude oil, the main feedstocks for the two, have converged (see chart). For grain prices to fall, Mr Currie argues, either governments must pull the plug on biofuels programmes, or the oil price must fall.

Neither seems very likely in the near future. This week America's Congress is debating whether to double its targets for biofuel production. At the same time, the oil price rose to its highest level in ten months, thanks to a strike and other disruptions in Nigeria. The chaos in the Niger delta, it turns out, has a surprising amount to do with the price of eggs.



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Buttonwood

Research in commotion

Jun 21st 2007
From The Economist print edition

It is getting harder for securities analysts to pay their way

IF THERE has been one lasting casualty of the collapse of the dotcom bubble, it has been sell-side research—the securities analysis undertaken by investment banks. Regulators have restricted it and investors have ignored it. RCM, a fund-management group, estimates that research budgets fell by more than 35% between 2000 and 2005. This month Prudential, an American financial group, said it would shut its research operation.

The main problem is that the business rarely pays. Regulators have sought to separate research from the corporate-finance arms of investment banks. In the dotcom era, analysts acted as if their opinions were for hire; if a company was planning to float or mount a takeover, they were happy to recommend the stock—provided their bank managed the deal.

Nowadays research is supposed to be paid for by commission income. But that is a problem now that investors can trade without using a broker, thanks to programme trades or order-matching systems. A survey by Greenwich Associates, a consultancy, found that the amount of commission dollars devoted to research has fallen by half in the past five years.

Research has also become more difficult. Analysts used to be the conduit between company managers and investors. But new regulations prevent them gaining privileged access to information. When it comes to number-crunching on shares, investors should have the computers to do it for themselves.

Things might have been even grimmer for the research departments of investment banks had it not been for hedge funds. A study by Booz Allen Hamilton, a consulting firm, found that whereas only 10% of large fund-management groups thought sell-side research was very important, more than 60% of hedge funds did so. Hedge funds trade a lot and they need new ideas; they are happy to pay handsomely for the best ones.

This means investors have split into two camps. The biggest fund-management companies, such as Fidelity, have their own research departments. Hedge funds rely on sell-side research. So, too, do smaller fund managers, but they often receive ideas only after they have been pitched to hedge funds.

One might expect buy-side research to be better than sell-side. It should not be subject to the conflicts of interest that affect the sell-side; the analysts should be interested only in finding the best stocks. Furthermore, because they do not publish their recommendations, the buy-side analysts are unlikely to face another problem that afflicts their investment-banking counterparts—angry chief executives who do not like sell notes on their stocks.

However, a recent study* found that buy-side analysts were much less accurate in forecasting earnings than sell-side analysts and their buy recommendations performed much worse (although, bizarrely, the sell recommendations of the sell-side performed better than the buys).

The study focused on only one fund-management group. But the academics also compared the results of fund-management firms that claimed only to use their own research with those that used a mixture of in-house and sell-side analysis. Statistically there was no difference between the performances.

Why aren't buy-side analysts better? One problem may be pay; analysts can earn a lot more at an investment bank. (And the best ones are increasingly being poached by hedge funds, the latest example being Henry McVey, Morgan Stanley's chief American investment strategist.) Another issue may be the status of analysts within the fund-management industry. Traditionally, fund managers did their own research. That still happens at the smallest groups; attending (say) Tesco's results presentation may not be the best use of a star manager's time. Those analysts who were hired tended to be junior staff who did the grunt work; compiling the data that the portfolio manager needed. Most analysts saw their job as a

stepping stone to managing money.

Those buy-side firms that give a more important role to analysts run the risk that they dominate the process, creating portfolios that the fund manager is obliged to pick from. This in effect takes the creativity out of fund management. There can also be the problem of “groupthink” when all the analysis is done in-house.

So outside analysis will probably still find a role for itself. Some of this will happen at investment banks, even if the service is a loss leader for the rest of the operation. Independent research boutiques are a better bet. After all, they live or die on the quality—and price—of their work.

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* “Do buy-side analysts outperform the sell-side?” Boris Groysberg, Paul Healy, Craig Chapman, Devin Shanthikumar of Harvard Business School and Yang Gui of University of North Carolina, Chapel Hill. March 2007.

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Italy's Mediobanca

One step forward, two steps back

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From The Economist print edition

Thumbs down for Italy's supposedly shining new breed of bankers

AMID the loud chorus of approval for the youngish crowd dragging Italy's banking system into the 21st century, it has been easy to miss a few dissonant notes. Though Mario Draghi, the central-bank governor, has approved cross-border takeovers, so far foreign banks are not at the top of the league. And the older generation of bankers, who for decades ran Italian banks like a gentlemen's club, still seems to call too many of the shots.

How else to explain the goings on at Mediobanca, a renowned Milanese investment bank? It had recently started to shake off the legacy of its powerful founder, Enrico Cuccia, only to find itself in thrall to another old-style capitalist, 72-year-old Cesare Geronzi.

On June 27th Mediobanca's shareholders are due to approve articles of association that will establish a dual structure of supervisory and management boards. Mediobanca's managers hope that the new structure will allow them freedom to expand abroad and to increase activities like proprietary trading at home. Alas, the list of candidates for the supervisory board has an average age of 57, not much lower than that of the present board; and for a bank with international ambitions, there is a conspicuous lack of American names.

Too many look like anachronisms, especially the prospective chairman, Mr Geronzi, who chairs Capitalia, an Italian bank that agreed to be taken over by its bigger rival, UniCredit, in May. He appears to owe his job at Mediobanca to Alessandro Profumo, boss of UniCredit, even though Mr Geronzi is more at home in the political hurly-burly of Rome, from where Mediobanca has always kept a healthy distance, and has little international experience.

Mr Geronzi also has legal problems. In December he was sentenced to a year and eight months in prison, against which he is appealing, for involvement in a corporate bankruptcy. Courts in Rome and Parma are expected to decide in July on Mr Geronzi's indictment for alleged responsibility in the collapse of two food companies. “Geronzi's chairmanship will send a completely wrong message. It will be a kick in the teeth for [Mediobanca],” declares John Andrew, chairman of Eidos Partners, a boutique investment bank in Milan.

All of which should be unsettling for Mediobanca's managers, led by Alberto Nagel. After Mr Cuccia's death, aged 92, seven years ago, Mediobanca appeared to be doomed. It lost money in 2003, its back-room sway over business dynasties such as the Agnellis dissipated. Since then, its mergers-and-acquisitions business has bounced back, however, and in the year to July 2006 the bank made net profits of €494m ($601m).

Yet it is still partly a prisoner of its past. Its consumer-credit and leasing operations sit awkwardly in an investment bank. It also has large strategic stakes in Assicurazioni Generali, Italy's biggest insurer, and in RCS Media Group, which owns *Corriere della Sera*, Italy's main newspaper. Together they account for more than half of its €14bn value.

Mediobanca should be broken up, but that will not happen because it is governed by a shareholders' pact that has Capitalia and UniCredit as its biggest members. The power of these pacts is a clear sign that Italian banking has not yet joined the modern age. That new stars such as Mr Profumo blatantly used them to support Mr Geronzi, and Mr Draghi apparently turned a blind eye to the man's legal problems, does not reflect well on them either.

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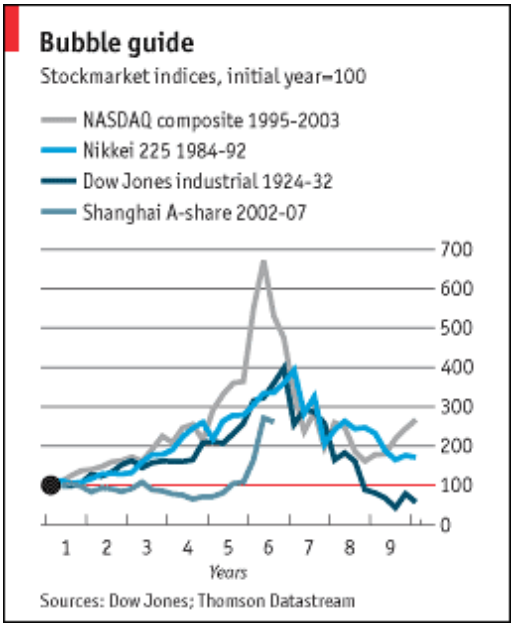
History's big bubbles

The boiling point

Jun 21st 2007 | HONG KONG
From The Economist print edition

How does China's bubble compare with previous financial manias?



ALAN GREENSPAN, the former chairman of America's Federal Reserve, always insisted when in office that it was extremely hard to spot bubbles before they had actually burst. This, he said, is one reason why policymakers should never try to prick them. Today, however, he seems to have no doubts that China's stockmarket is bubbling over. He recently declared that Chinese share prices were “clearly unsustainable”, with a risk of a “dramatic contraction”.

It is curious that China's bubble seems so blindingly obvious to Mr Greenspan and so many other Americans who remained in denial about their own dotcom mania right to the end. For according to *The Economist*'s “Bubble guide” (see chart), China's recent share-price boom is still relatively modest compared with the giants of history. The chart plots the performance of Chinese share prices over the past five years against the three great bubbles of the 20th century: Wall Street in the 1920s, Japan in the 1980s and America's NASDAQ in the 1990s. The NASDAQ composite index saw a gain of more than 500% from 1995 to early 2000. Japan's Nikkei 225 jumped by 300% from 1984 to 1989. The Shanghai A-share index, having recovered most of its plunge in late May, shows a gain of about only 160% over the past five years.

Moreover, Chinese A-shares now have an average price-earnings (p/e) ratio of around 45. At their peaks, the average p/e ratio of the Nikkei 225 in 1989 and the NASDAQ at the start of 2000 were both well over 100. This suggests that Chinese share prices could have much further to climb before the bubble bursts—unless China's policymakers are braver than Mr Greenspan and take bolder action to dampen the market now.

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Emerging-market debt

The sovereign loses its crown

Jun 21st 2007
From The Economist print edition

In the developing world, companies are bigger borrowers than countries

WHO says sovereign debt is king? Firms in emerging markets have raised more than twice as much in international markets as have sovereign borrowers this year, a complete turnaround from just five years ago (see chart).

The shift has struck even China, home to some of the biggest share issues ever in the past year. It has transferred authority over the issuance of corporate bonds to a more liberal regulator, the China Securities Regulatory Commission. This has issued draft rules allowing Chinese companies to sell bonds maturing in more than a year without issue-by-issue approval. That is expected to lead to a surge in bond offerings by cash-strapped companies, which until now have raised most of their financing through domestic bank loans.

If some of those bonds make it to international markets, it would fit a pattern that dates back to 2002. Since that time, global investors have increasingly turned to emerging-market debt as well as shares. Some noticed that after Argentina's default in 2001, corporate bonds bounced back faster than sovereign ones did. Governments, meanwhile, borrowed less as their fiscal positions improved and retired some of their outstanding bonds, which gave the edge to corporate issuance. Meanwhile, some companies, like Russia's biggest energy company, Gazprom, and India's ICICI Bank, are now rated by Moody's, a credit specialist, higher than their home-country governments. Investors, too, often see an advantage in betting on a country's most competitive industries, such as mining, rather than on the whole nation.

With all the liquidity have come laxer lending standards. According to a recent report by the World Bank, private lenders have granted borrowers more flexibility with loan covenants and demanded fewer third-party guarantees. Emerging-market bond spreads over American Treasuries have fallen from 859 basis points in June 2002 to 153 basis points on June 19th, even though rating agencies have been cautious about upgrading the borrowers.

Some argue that this is an unsustainable bubble—that reduced transparency and poorer governance among emerging-market issuers, as well as currency risks, are not reflected in the price. But champions of the emerging markets note that some issuers have explicit or implicit government support and that the biggest private-sector borrowers, including multinationals such as Mexico's Cemex, a cement company, have geographically diverse revenues. The World Bank also notes that, on average, emerging-market companies that tapped international markets were ten times larger in assets than their domestic rivals, giving them great strength at home.

Of most concern to creditors is global liquidity. When risk aversion mounts—as it surely will again at some point—emerging-market borrowers are usually quick to feel the effects.

During this month's Treasury-bond sell-off, emerging-market bonds held up well. However, if markets, or the economy, take a sharp turn for the worse, investors may not be so brave. In addition, lenders will have to ponder the legal difficulties of enforcing debt contracts in emerging markets. In some countries, such as Turkey and Mexico, the law is based on the French Napoleonic model where secured creditors may not collect as much as in common-law countries. Studies also find that the ability to secure repayment is closely correlated with other measures of public-sector health, such as the control of corruption and tax compliance. So government policy clearly matters. The sovereign still counts for something, after all.

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Algorithmic trading

Ahead of the tape

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From The Economist print edition

The best newsreaders may soon be computers

INVENTORS of trading algorithms—computer programs that generate buy and sell orders and make lightning-quick trades—have picked up a bit of timeless wisdom from the stock operators of old. “The best of all tipsters,” Edwin Lefèvre wrote in a 1923 fictional account of the markets, “is the tape.”

As the time taken to process computer-generated trades falls to thousandths of a second, algorithms are being created to react to news headlines faster than the eye can scan them. Dow Jones and Reuters, the news providers, now offer electronically “tagged” news products that algorithms pick up to make programmed trading decisions. (Dow Jones claims the business is so secretive that it cannot divulge details of customers.) Britain's Financial Services Authority, a regulator, also hopes to use algorithms to comb through trading data to find hints of suspicious activity, which it reckons takes place before about a quarter of all takeover announcements.

Algorithmic trading accounts for a third of all share trades in America and the Aite Group, a consultancy, reckons it will make up more than half the share volumes and a fifth of options trades by 2010. On June 18th the London Stock Exchange unveiled an electronic system catering to the growth of algorithmic trading, which cuts trading times down to ten milliseconds. On its first day, it processed up to 1,500 orders a second, compared with 600 using its previous system. The ability to push up volumes should help dissuade customers from moving to faster platforms elsewhere.

The aim is to reduce the delay between order and execution, known as latency. Every moment is crucial in “black-box” and “statistical arbitrage” trading, where computers prowl through the market for price distortions that may last only for a split second. Order-handling algorithms, which break up large trades, must also move faster than the blink of an eye to ensure they get the best electronic prices.

According to TowerGroup, a research firm, $480m is likely to be spent in America this year on developing technology for algorithmic trading. Such is the focus on speed that even location counts. Servers positioned nearest to a trading venue can shave milliseconds of the timing of a trade and get a better price.

Low latency could also help investors get a jump on news of economic data as it flashes across the wires. According to Andrew Silverman of Morgan Stanley the use of news feeds for algorithmic trading is at an early stage. The software, which relies on keywords to generate buy and sell orders, may misunderstand the context surrounding a headline. For example, a market-moving word such as “surprise” may indicate numbers are better, or worse, than expected. Mr Silverman explains that news algorithms are best used with other variables, such as share price and volume, which may reinforce the buy or sell signal.

Now that trading algorithms are reading the news, are they also getting the story faster than journalists can? Regulators suspect that some price movements before takeover announcements stem from algorithms picking up early-warning price signals in the market. Eventually, the news may come from reading the algorithmic trades, not the other way around.

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Economics focus

Misleading misalignments

Jun 21st 2007
From The Economist print edition

Judging whether a currency is seriously undervalued is much harder than you think

“MISALIGNMENT” is all the rage. A new bill introduced into America's Senate proposes to punish countries where the exchange rate is found to be “fundamentally misaligned”. It would require the Treasury to identify seriously undervalued currencies, and then, if the culprits do not take action, would allow American firms to ask for protective anti-dumping duties. If a culprit persisted with its “manipulation”, the Treasury would have to lodge a formal complaint at the World Trade Organisation. The bill, which is clearly aimed at China, follows a flurry of China-bashing proposals over the past year. But this one is different: it has widespread support and is likely to be passed before the end of this year.

Congress is hoping that it will be much easier to show that a currency is misaligned than manipulated. On June 13th, the day that this legislation was introduced, the Treasury decided yet again not to brand China a currency “manipulator” in its semi-annual report on exchange rates, but confidently declared that the yuan was “undervalued”. And on June 18th the IMF also announced a new framework for monitoring countries' exchange-rate policies. It will track indicators such as heavy foreign-exchange intervention and “fundamental exchange rate misalignment” in order to identify countries that are unfairly manipulating their currencies.

This activity is based on the widespread assumption that the Chinese yuan is hugely undervalued against the dollar. Yet the awkward truth is that it is almost impossible to be sure when a currency is misaligned, let alone by how much. A recent Treasury research paper admitted that there was no fail-safe method to estimate the correct value of a currency. A study by two IMF economists, Steven Dunaway and Xiangming Li, examined eight different estimates of the yuan's supposed undervaluation: they ranged from zero to almost 50% depending on the methods and assumptions used.

There are three main ways of determining the “correct” value for a currency. The oldest is based on the theory of purchasing-power parity (PPP): the idea that, in the long run, exchange rates should equalise prices across countries (*The Economist*'s Big Mac index is a crude version of this). More sophisticated PPP models adjust for differences in productivity or income per head, because it is natural for prices to be lower in low-income countries. They usually find that the yuan is undervalued. The biggest weakness of PPP is that the equilibrium is only a very long-run one, as it completely ignores capital flows.

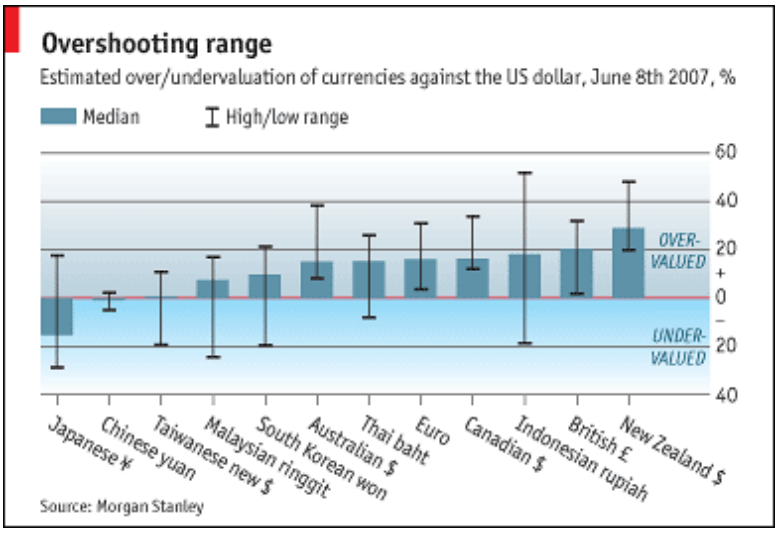
A more popular definition of the fair value of a currency is the exchange rate that corresponds to a trade position considered “sustainable”. Thus China's large and rising current-account surplus is seen as hard evidence that the yuan is severely undervalued. A related approach is to estimate the fundamental equilibrium exchange rate (FEER). This is the rate consistent with both a sustainable current-account balance and internal balance (ie, full employment with low inflation). But many FEER studies of the yuan focus only on trade and assume that China is close to internal balance—despite its vast pool of underemployed rural workers. Even if the trade surplus requires a big revaluation, the internal-balance criterion may call for a lower exchange rate.

The FEER approach is flawed in two ways. First, a large current-account surplus does not necessarily prove that a currency is unfairly cheap; it may just reflect countries' different savings and investment rates. Second, it is increasingly difficult to define the sustainable level of a current account in a world of mobile capital. Yet the equilibrium value of a currency is highly sensitive to this assessment.

For this reason, Stephen Jen of Morgan Stanley prefers a third method of calculating the fair value of a currency: the so-called behavioural equilibrium exchange rate. This does not attempt to define long-term economic equilibrium. Instead it analyses which economic variables, such as productivity growth, net foreign assets and the terms of trade, seem to have determined an exchange rate in the past, and then uses the current values of those variables to estimate a currency's correct value.

Pick a number

Morgan Stanley uses no fewer than 13 models to value currencies. Its latest update offers a wide range for the euro's fair value against the dollar from $1.02 to $1.29, with a median value of $1.15. By all measures the euro's current rate of $1.34 looks overvalued. Sterling and the New Zealand, Australian and Canadian dollars also all look too expensive (see chart). Most striking is the New Zealand dollar that is 29% overvalued.



The yen might be anything between 18% overvalued and 29% undervalued, depending on which model you trust. But nine of the 13 models signal undervaluation, with the median value suggesting the yen is 15% too cheap—the weakest currency in the chart. What about the yuan? Morgan Stanley uses only four models to estimate the yuan's fair value, of which the median valuation suggests it is only 1% undervalued against the dollar—not the answer Congress wants. Another surprise is that most other emerging Asian currencies now look overvalued.

None of these numbers should be taken as precise, but two conclusions follow. The first is that, in theory at least, there is a stronger case for declaring Japan's currency to be misaligned than China's. It is bizarre that the weakest currency is the yen, when Japan is the world's largest net creditor and had faster GDP growth than either America or the euro area in the first quarter. The problem, says Mr Jen, is that traditional models for estimating the fair value of currencies still focus mainly on the real economy, but increased cross-border investment flows (based partly on nominal interest-rate differentials) are now much more important. The second awkward conclusion is that the highly subjective nature of assessing currency misalignment will make it very hard for America or the IMF to agree on whether a currency is out of line.

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Chemical and biological engineering

One for the road

Jun 21st 2007
From The Economist print edition

A new biofuel made from fruit sugars promises more oomph than traditional ethanol

Fresh Food Images

REPLACING carbon-rich fossil fuels with more environmentally friendly alternatives should slow global warming. As part of that drive, both America and Europe have embraced biofuels—liquids derived from plants that can be used to power cars and other vehicles. By their very nature, biofuels cannot be carbon-free because carbon is essential to life on Earth. Burning biofuels does indeed release carbon dioxide, a greenhouse gas. The attraction is that the volume of gas released exactly matches that taken up by the plant when it was growing. So overall (and with the huge proviso that you do not count the fossil fuel used to farm the stuff) biofuels are carbon-neutral.

In America the Department of Energy has set a target for 30% of the 2004 gasoline demand for vehicles to be met by biofuels by 2030. The European Union wants 25% of transport fuels to be derived from biofuels by the same date. At present, the most widely used substance is ethanol, which can be made from sugar cane, sugar beet and maize (or corn, as it is called in America). But ethanol does not pack a particularly powerful punch. It is also susceptible to absorbing water, further diluting its oomph. It takes days to ferment the stuff. A biofuel that did not suffer from these limitations would be welcome.

That is what a team led by James Dumesic of the University of Wisconsin-Madison claims to have developed. The researchers think they have devised a biofuel that has a 40% higher energy density than ethanol, that repels water and that can be made relatively speedily.

One of the most frustrating aspects of biofuels is the stark contrast between what exists in nature and what you can put in the tank. Plants are rich in carbohydrates, a group of organic compounds based on carbon and water, itself a combination of hydrogen and oxygen. These carbohydrates take the form of chains of thousands of sugar units; each unit contains six carbon atoms and a similar number of oxygen atoms. An ideal fuel, on the other hand, should lack oxygen. Its molecules should also be small, that is, they should contain few carbon atoms. Creating an efficient fuel from plants thus presents a headache.

To date, scientists have approached the problem by taking one of two routes. The chemists have tinkered with heat and metal catalysts to refine their materials. Biologists, meanwhile, have recruited enzymes and microbes to do the job.

The team led by Dr Dumesic combined the two methods. It was thus able to break down long carbohydrate chains to form small, useable molecules while simultaneously removing the oxygen and maintaining the energy content of the biofuel. The researchers began by using enzymes to snip the carbohydrates into fragments that were then rearranged to form a sugar called fructose, which is found in fruits.

They doused the fructose in acid, which catalysed a chemical reaction expelling oxygen atoms as water molecules. The researchers immediately added a second catalyst and some hydrogen, which eliminated more oxygen. The result was a fuel called “2,5-dimethylfuran”. The process is written up in this week's issue of *Nature*.

The new biofuel can be made directly from fructose, which is present in fruits such as apples, pears, berries and melons as well as some root vegetables. It can also be manufactured from the large polymer chains found in cereals, grasses and trees. Perhaps the most promising method, from a biochemical point of view, would be to use glucose, a sugar common in food.

The resulting biofuel is not only energy-rich and water repellent but it also has a higher boiling point than ethanol. Keeping it liquid in a vehicle's fuel tank should therefore be straightforward.

But this biofuel shares a disadvantage with ethanol: its raw material is food. Ideally, biofuels would be made from waste farm products rather than crops. That way, the chaff could be used to produce biofuel for transport and the wheat could be used for people.

Unfortunately for science, nature conspires against this. Plants have evolved chemical and structural properties that make it difficult to them break down. One possibility would be to use genetic modification to create plants that are more amenable to such manipulation. Another is to use existing chemical or biological techniques, or to combine the approaches, rather as Dr Dumesic and his colleagues have done. Whichever works best, the second generation of biofuels is coming down the pipeline.

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Crime prediction

The jailer's dilemma

Jun 21st 2007
From The Economist print edition

Assessing the risk of a criminal reoffending gives poor results

PAST performance is not an indicator of future returns. That, at least, is the advice given to investors. But can the likelihood of a person committing a crime be predicted by looking at his record? The answer, according to a team of clinical forensic psychologists, is that it cannot. Not only is risk prediction unreliable but, when applied to individuals rather than groups, the margins of error are so high as to render any result meaningless.

Making assumptions about individuals from group data is generally only reasonably safe when the variation within the group is small. Despite this, risk assessments are routinely used to help decide who should be locked up, who should undergo therapy and who should go free. In America such tests are used when sentencing sex offenders and killers who may receive a death sentence. In Britain the tests help psychiatrists and psychologists determine whether someone should be held under the new laws that allow someone suspected of being dangerous to be detained indefinitely. Risk prediction is also set to be used to assess the threat posed by people ranging from terrorist suspects to potential delinquents.

Stephen Hart, of Simon Fraser University in British Columbia, Canada, and colleagues decided to determine how accurate these tests are when applied to individuals rather than groups. Typically the tests work by assigning a score to people depending on factors such as their age, the history of their relationships, their criminal past and the type of victims they have chosen. If someone's score places him in a group in which a known proportion has gone on to commit a crime on release from detention, then the risk that person will prove a recidivist is thought to be similar to the risk for the group as a whole.

The paper published by Dr Hart and his colleagues in last month's issue of the *British Journal of Psychiatry* focused on two popular tests that follow this logic. The first was a 12-item test designed to assess risk for general violence over periods of seven to ten years. The second was a ten-item test designed to assess risk for violence and sexual violence over periods of five to 15 years. The researchers have also assessed other tests used for predicting sexual offences and domestic violence.

They found that variations between members of the groups were very large. In one of the tests, for example, the standard estimate of the chances of members of the group sexually reoffending was put at 36% within 15 years. They calculated that the actual range was between 30% and 43% of the group, with a 95% confidence level. But calculating the average probability for a group is much easier than calculating the same probability for any individual. Thus, using standard methods to move from group inferences to individual ones, they calculated that the chance of any one person reoffending was in the range of 3% to 91%, similarly with a 95% confidence level. Clearly, the seemingly precise initial figure is misleading.

The principle is not peculiar to psychology. It has been recognised by statisticians for decades. They call it the ecological fallacy (although this term captures broader subtleties, too). Medicine has also been confounded by statistically based procedures. Indeed, the technique is only really useful when the successes and failures are aggregated. A life-insurance company, for instance, could wrongly predict the life span of every person it insured but still get the correct result for the group.

For assessing individuals, though, such methods are extremely dubious. A politician minded to use them may do better to take a leaf from the investor's—or the statistician's—rulebook.

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Human evolution

My sister's keeper

Jun 21st 2007
From The Economist print edition

A woman with a twin brother has fewer children

TWIN brothers can leave quite an impression. The mere presence of a boy in the same womb as his sister causes her to develop bigger teeth than she otherwise would. Girls with twin brothers perform better on spatial-ability tests. They have better ball skills than most females; squarer, more masculine jaws and are more likely to be short-sighted. Now it seems that sharing the womb also has a deleterious effect on the sexual reproduction of women with a twin brother.

Virpi Lummaa of the University of Sheffield, in Britain, and her colleagues made the claim after studying detailed data from several generations of church records from many parishes in Finland. To ensure their findings were not skewed by modern health care, they confined their investigation to the years before Finns gained access both to contraception and assisted conception.

They report that women with a twin brother were 15% less likely to get married than were women with a twin sister. Those with a male twin also had a 25% lower chance of giving birth even though they lived just as long as those with a female twin. When the researchers considered only married women, those with a twin brother on average had two fewer children during their lifetimes than did women with a twin sister. And finally—to rule out any influence of sharing a house as well as a womb—Dr Lummaa checked the results were the same for women whose twin brothers died before they were three months old. They were. The researchers reported their findings in this week's *Proceedings of the National Academy of Sciences*.

As with the teeth and the jaw lines, the purported cause of atypical female biology is early exposure to testosterone. This hormone is made by a male fetus's developing testes from about seven weeks after conception and is thought to diffuse through the amniotic fluid, influencing his sister's growth. But the exact mechanism by which a twin brother lowers his sister's chances of reproductive success is unclear.

Lesbianism is one possibility. (To what extent is impossible to tell, because the Lutheran ministers charged with collecting exhaustive demographic details did not probe quite that far.) But physiology could also play a part. Some cancers of the reproductive system, and a condition called polycystic ovary syndrome, which reduces fertility, are more common in women with relatively high early exposure to male hormones.

Dr Lummaa's results also suggest that, if a woman wishes to maximise the chances of passing on her genes, she would do better to avoid producing pairs of twins consisting of one boy and one girl and go for a single-sex combination instead. Mothers included in the study who produced opposite-sex twins had 19% fewer grandchildren than did mothers who gave birth to same-sex twins.

Evolutionary theory thus predicts that there should be fewer pairs of girl-and-boy non-identical twins than single-sex pairs of non-identical twins. Whether that is so requires another set of figures. Finnish church records, helpful as they are, do not distinguish non-identical same-sex twins from identical ones. In the eyes of God, unlike those of natural selection, twin girls are created equal.

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Astrophysics

Spiralling in space

Jun 21st 2007
From The Economist print edition

A controversial suggestion that black holes cannot swallow information

BLACK holes have long aggravated astronomers and physicists. A consequence of Einstein's general theory of relativity—one of the pillars of modern physics—says that black holes formed by collapsing objects such as stars are so dense that nothing, not even light, can escape their gravitational pull. Unfortunately a second pillar—quantum mechanics—asserts that it is impossible for information to be lost. What happens, then, when information is dragged into a black hole? A team of physicists now proposes that such a scenario may never occur because the black hole actually disappears before it forms.

The team, led by Tanmay Vachaspati of the Case Western Reserve University in Ohio, decided to tackle what is known as the “information loss paradox” not by considering how a physicist might see the world as he fell into a black hole, as has often been done, but from the distant vantage point of a less foolhardy colleague.

According to classical theory, at the boundary of a black hole—the so-called event horizon—light can no longer escape. But this is not the complete picture. Some 35 years ago the British physicist Stephen Hawking argued that quantum effects would allow particles (including light) to escape from a black hole. The reason for this is that, according to Heisenberg's uncertainty principle, space is not entirely empty. At the quantum scale, virtual pairs consisting of a particle and its antimatter equivalent are constantly popping into existence. Normally, they quickly annihilate, but a black hole can peel such pairs apart by sucking in one of them and leaving the other to escape. This means that a black hole would not be truly black. Instead, it should glow.

The escaping particles would make the black hole evaporate with time, yet it was not thought possible that the particles could carry any information away from the black hole, so the proposal did not solve the paradox. (Although three years ago, Dr Hawking suggested that they might carry information after all.)

Dr Vachaspati and his colleagues go far further. Their calculations suggest that the event horizon for collapsing stars never quite comes into existence, at least, not for the colleague watching from far away. He sees the proto black hole evaporate marginally faster than information—including that wrapped up in the existence of his colleague—can fall into it. (The colleague, meanwhile, would never know whether he had crossed the event horizon.) The paper has been accepted for publication in *Physical Review D*.

If Dr Vachaspati and his colleagues are correct, then the many candidate black holes identified by astronomers to date must ultimately evaporate faster than they can suck in information. This could still be a leisurely process, prolonging the agony for astronomers and physicists who want to know exactly what is going on.

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Ecology

When small is best

Jun 21st 2007
From The Economist print edition

When habitats contract, the creatures they contain get smaller

Centres for Disease Control

AS HUMANITY grabs great swathes of land for its use, the wilderness favoured by other animals shrinks. It has long been known that the fragmentation of habitat gradually isolates the individuals of a species, leading to a decrease in genetic diversity. Ecologists have now discovered another effect. It would appear that, as the habitat shrinks, so too do the creatures that live there.

Mark Lomolino of Syracuse University in New York wanted to study how habitat fragmentation changes the diversity and distribution of small mammals. He decided to compare the creatures living in an undisturbed area of rainforest in the state of Washington with the denizens of neighbouring but more fragmented forest areas. Between 1994 and 1997, he and his colleagues from the University of Oklahoma captured more than 2,000 shrews, voles and mice. As part of their study, they routinely recorded the body length and mass of each creature they caught.

When the ecologists had finished their fieldwork, they made a startling discovery. Three of the five types of small mammal in the more fragmented habitats (namely, the north-western deer mouse, the montane shrew and Trowbridge's shrew) were smaller. The difference in size was between 5% and 15%—small but significant. They will publish their results in a forthcoming issue of *Conservation Biology*.

Dr Lomolino thinks he is watching an evolutionary process similar to what is seen on islands. On large expanses of land, big animals do best, because they are less vulnerable to cold and less likely to be attacked by predators. However, large size comes at a cost because big animals have to eat more.

On smaller islands, temperatures are typically mild, predators are usually absent and food is scarce. Under such circumstances, little animals have an advantage over larger ones. For example, the fossil record shows elephants that found their way onto islands millions of years ago shrank rapidly. In fewer than 100 generations, their bodies decreased to between 50% and 5% of their original size. The animals in effect became pygmy elephants.

Dr Lomolino believes that forest fragmentation may be creating “islands” of wilderness where predators and food are scarce. Combined with an increasingly warm climate, this could cause the size of the residents of such an ecosystem to fall. Small, it would seem, is the new niche on the evolutionary ladder.

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The history of India

A miraculous journey

Jun 21st 2007
From The Economist print edition

The story of India's transformation, by two writers who have different views on the leader who guided the nation through its early independence

India After Gandhi: The History of the World's Largest Democracy
By Ramachandra Guha

To be published in America by Ecco in August Macmillan; 900 pages; £25.

Buy it at
Amazon.com
Amazon.co.uk

The Clash Within: Democracy, Religious Violence, and India's Future
By Martha C. Nussbaum

Belknap Press; 432 pages; $29.95 and £19.95

Buy it at
Amazon.com
Amazon.co.uk

Reuters

“YOU British believe in fair play,” said a Punjabi official to a young British social worker in 1947. “You have left India in the same condition of chaos as you found it.” He had a point. Disbanding, at two months' notice, a system of rule that had taken two centuries to construct, the British left a subcontinent famished and divided. Thanks to modern medicine, the population had steepled to 400m. But with no corresponding effort to improve agricultural productivity, food production per head had plummeted: hunger was general. In sectarian rioting over the partition of British India—the necessity of which history has yet to decide—1m people, maybe 2m, perished.

Delineated by caste, a society less fit for democracy was almost unimaginable. In southern Kerala, an “untouchable” *paraiya* (hence: pariah) would cry out a warning as he went, ensuring that no high-caste brahmin need be sullied by a glimpse of him. Consisting of a dozen main linguistic blocks, which had never previously been united, and with over 500 independent principalities speckled across it, India was not a nation at all. Many departing Britons predicted it never would be.

That it has survived as the world's biggest democracy and is now emerging, with over a billion people, as an economic giant, is one of the remarkable tales of modern times. Ramachandra Guha, an Indian himself, has rendered it in rare detail.

He describes the country's first rulers, the nation-builders of the Congress party, in shimmering terms: as saints and heroes, no less. And indeed they included several brilliant men. Thus, B.R. Ambedkar, an untouchable legal scholar, who drafted a liberal constitution in the teeth of the most illiberal opposition. Also, Vallabhbhai Patel, who duped and threatened most of the princes into merging with India in less than two years.

Above all, Jawaharlal Nehru, who led India for its first 17 years. He made appalling mistakes, for example in his arrogant, autocratic handling of the contested region of Kashmir. On this, the admiring Mr Guha judges him too kindly. Yet the principles of secularism and democracy upon which India was founded were his own. A weaker leader would probably have failed to implant them.

By giving Nehru such a smooth ride, Mr Guha stores up opprobrium for his daughter, Indira Gandhi. On Nehru's death, in 1964, she inherited a party and a state sickening with corruption. Conveniently for Mr Guha's thesis, she accelerated their demise, proving dreadful in most ways. The economy needed urgently to be liberalised; she tightened control over it. Congress was aching for internal democracy; she let it splinter. She suspended the country's democracy, imposing a two-year emergency. When democracy was restored, in 1977, Congress was swept from power by an alliance of its opponents. Only two governments since, both of them Congress, have been formed by a single party.

Political fragmentation was inevitable. India is too diverse to be represented by a single party. Yet Martha Nussbaum, an American polymath, blames Nehru for it nonetheless. Remarkable as were his achievements, his stern generalship of Congress alienated many in the provinces. Encouraged by affirmative action written into the constitution on behalf of untouchables and low-caste groups, caste-based alternative parties emerged, often hugely corrupt and linked to gangsters.

Worse, in Ms Nussbaum's view, was Nehru's rationalist disdain for “the cultivation of liberal religion and the emotional bases of a respectful pluralistic society”. If such bases are understood to be liberal arts schools—of the sort created in the first half of the last century by Ms Nussbaum's hero, Rabindranath Tagore, a Nobel laureate poet, in Bengal—a good point lurks within an esoteric sentence. Difficulty in disentangling language is quite a common experience in reading Ms Nussbaum, rewarding as her book is

in other ways. It is also a bit harsh on Nehru to attribute the rise of the Hindu right in part to his suspicion of religion; the right's flagship Bharatiya Janata Party espouses pro-business policies and extreme nationalism.

Ms Nussbaum considers the Hindu extremists, nourished by the communal violence that they stir, a terrible threat to India's improbable democracy. And there are others, with a Maoist insurgency inflaming the impoverished east of the country. Continued fast growth is critical. Millions of poor Indians need a reason to believe in their way of government.

But growth will not, on its own, heal their divisions. Indeed, the extreme unevenness of India's current enrichment is creating new splits. Amartya Sen, an economist and a more recent Nobel-prize winner, has given warning that the country's west and south may come to look like California while the north and east is more like sub-Saharan Africa. To develop a unity that is not based on race or religion, Ms Nussbaum argues for the “public poetry” advocated by Tagore. That would be lovely but, as an ugly consumerism lays hold in India, almost unimaginable.

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To be published in America by Ecco in August

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Pakistan's military businesses

Polished brass

Jun 21st 2007
From The Economist print edition

CORNFLAKES, cinemas, bakeries, petrol stations, insurance companies and an airline—these are but a few of the business interests that Pakistan's generals, who have ruled the country for most of its history, have accrued. In a pioneering investigation, Ayesha Siddiqa, a tenacious Pakistani, estimates that the armed forces have gathered private assets worth $10 billion.

Ms Siddiqa defines military business as any capital appropriated by soldiers outside the defence budget. It includes five welfare foundations, two of them, the Fauji Foundation and the Army Welfare Trust, being Pakistan's biggest conglomerates. These control thousands of companies, ostensibly to finance education and health care for military families. The foundations have a virtual monopoly on sectors including road-building and cement production; Ms Siddiqa estimates that they control one third of Pakistan's heavy manufacturing.

Senior officers cite army welfare as justification for this empire with the same monotony as they cite national security to justify their coups. Ms Siddiqa suggests that the economic interests of a greedy military elite, mostly recruited from just three districts of Punjab, in fact goes a long way to explaining both.

Military Inc: Inside Pakistan's Military Economy
By Ayesha Siddiqa

Pluto Press; 292 pages; $35 and £19.99

Buy it at
Amazon.com
Amazon.co.uk

Another of their justifications is that soldiers make more efficient managers than civilians. To this effect, President Pervez Musharraf, the current ruling general, recently praised the army's contribution to Pakistan's economy. But this seems to be as wrong as the notion that soldiers make better rulers than civilians. According to Ms Siddiqa, many, if not most, military businesses operate at a loss. To keep them afloat, the government has had to make bail-outs amounting to hundreds of millions of dollars.

Ms Siddiqa offers a sobering judgment on how difficult it will be to reduce the power of the well-provided-for generals: “A major change can only be made possible through mass mobilisation combined with pressure from outside the country.” With an election approaching, protests are currently rumbling. Last week envoys from America, General Musharraf's main sponsor, suggested he must shed his uniform to stay in power. The general's response is not known. But his government did take the small step of banning hotels in Islamabad from launching Ms Siddiqa's valiant book.

Military Inc: Inside Pakistan's Military Economy.
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European history

Revolutionary days

Jun 21st 2007
From The Economist print edition

WRITING for an historical series is tricky, and the outcome is not always a success. The best overall European history in English is the old “Fontana History of Europe”, but it was uneven in quality, and it suffered because the volumes appeared so far apart in time. The new “Penguin History of Europe” has only recently begun. But judging by this second volume in a projected eight-volume series, it is going to be a smashing success.

The Pursuit of Glory: Europe 1648-1815
By Tim Blanning

Viking; 707 pages; $39.95.
Allen Lane; £30

Buy it at
Amazon.com
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Tim Blanning, a Cambridge history professor, may not have the controversial dash of a Simon Schama or a Jonathan Clark, but he brings to his period knowledge, experience, sound judgment and a colourful narrative style. His broad range is evident from the start when, in place of the usual recitation of politics and battles, he expounds on such themes as communications, transport, demography and farming. Indeed, much of what might be seen as traditional history is pushed back to the fourth and final part of the book.

Not the least of Mr Blanning's achievements is his integrated approach to the entire continent. He jumps nimbly from Spain to the Low Countries, from Russia to Austria, from Prussia to Turkey. Many of Europe's royal families were related, after all. Moreover, the biggest preoccupation of such places as an emerging Prussia, a nervous Poland or a mercantile Dutch Republic was always with their neighbours, any one of which might invade them at almost any time.

The author also deftly places the history of the two greatest rivals of the day, England and France, in its wider European context. Any British Eurosceptic who thinks his country's history is detached from continental Europe's would realise from even the most scanty perusal of this book how bound up with the continent it has in fact always been.

The 17th and 18th centuries in Europe were, above all, a period of war. Indeed, it seemed at times as if France and Austria, the pre-eminent martial powers in 1648, did little else but fight. Sometimes war helped to stimulate economic and commercial development. But it is striking that it fell to Britain, which enjoyed at least a few years of peace, to pioneer Europe's industrialisation. Not coincidentally, among big powers it was the British who most curtailed the absolute rule of their monarch and who established the soundest base for financing a modern state. France's failure to do either was a leading contributor to its revolution in 1789.

The emergence of the modern state is a second main theme of the book. The drawn-out demise of the Holy Roman Empire, the sickening of the Ottoman Empire and the rise of Prussia laid the basis for the century ahead. As, of course, did revolutionary France, although Mr Blanning convincingly lays stress on its continuity with the *ancien régime*, especially in foreign policy. No history book can be dull that detects the origin of the French revolutionary wars almost two years before Bastille Day: in the declaration of war by Turkey on Russia in mid-August 1787, which the author likens to the assassination of Archduke Franz Ferdinand in June 1914.

The book is stronger on the 18th century than on the second half of the 17th, reflecting the author's own historical bias. Another weakness is that, though there is a reasonable bibliography, it has no footnotes citing sources, a scandalous omission in a work with serious academic pretensions. It also sometimes takes for granted a basic grounding in the history of the period, which may be problematic for students at whom it is presumably in part aimed. But overall Mr Blanning has produced a triumphant success.

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Fanny Kemble

A woman of many lives

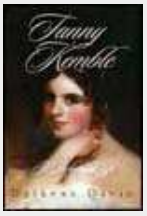
Jun 21st 2007
From The Economist print edition

A FRIEND of Fanny Kemble once apologised for declining a visit by explaining: “I could not see so many people as you are when I had a headache.” It is somehow fitting therefore that so many biographies continue to be written about her. Deirdre David's is the fourth in seven years. It is lively and thorough, both fuller and more balanced across the whole of a long life than its recent predecessors, which tended to concentrate more on the crises.

Fanny Kemble (1809-93) was the niece of two Shakespearean tragedians, Sarah Siddons and Siddons's brother, John Philip Kemble. Her father and her French mother were also actors. In fact her whole extended family constituted the foremost theatrical dynasty of the late 18th and early 19th centuries. Handsome and gifted, they crop up in letters and diaries throughout the period, and were generally regarded as a kind of royalty: a race apart.

The real competition for any biographer of Kemble is Kemble herself. As her friend Henry James noted: “in two hemispheres, she had seen everyone, had known everyone”. What's more, she recorded it all in many volumes of vividly written memoirs, all swarming (James's word) with people, criticism, social commentary, anecdote, scenery, political opinion and superb set-pieces: the digging of Brunel's Thames tunnel, for instance.

Fanny Kemble: A Performed Life
By Deirdre David



University of Pennsylvania Press; 384 pages; $39.95 and £26

Buy it at
Amazon.com
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Kemble's memoirs, especially her “Journal of a Residence on a Georgian Plantation”, are as important historically as they are engrossing, and Ms David does full justice to them. But what fascinates us now is the way that Fanny, clever and reckless as she was, broke the rules—or, to put it in the seminar-speak that sometimes obtrudes in Ms David's book, the way she appropriated and revised the role prescribed to her by gender politics.

She never cared about such prescriptions. She spoke her mind and thought nothing of walking into a stream fully clothed if it was hot. It wasn't until her marriage that her gender collided with the realities of power and money. Though she was never intended for the stage, the looming bankruptcy of her father obliged her to try her chances. Overnight, she became the toast of London. Money flowed, and yet more on a tour of America, where she met a seductive young man, Pierce Butler, heir to huge rice and cotton slave-plantations in Georgia. Hoping to escape the shallow emotionalism of the theatre (as she saw it), assuming a companionship of equals and somehow managing to forget the slaves, she married him.

At a stroke she lost everything. Butler, deeply illiberal, exerted his rights. He appropriated her earnings, censored her writing and when she woke to the horrors of slavery, forbade her public opposition to it. She wept, she ran away, she returned. The birth of children, in whom she had no legal rights, further enchained her.

The rest of Kemble's life was sheer indomitability. The Butlers did divorce. She did lose the children. But on their majority, she recovered them. She made her own money again. Criss-crossing the Atlantic, she gave Shakespeare readings to packed audiences. Every summer, she climbed the Alps, startling the guides by singing loudly as she went. She met James in 1872 and he fell under her spell, fascinated by her proud idealism, her eccentric honesty and above all by her talk of “old London”. “She reanimated the old drawing rooms,” he wrote, “relighted the old lamps, retuned the old pianos.” When at last she died, he felt it, he said, “like the end of some reign or the fall of some empire”.

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By Deirdre David.
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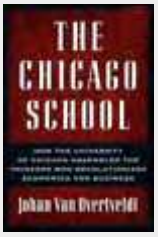
Economics in Chicago

Hyde Park corner

Jun 21st 2007
From The Economist print edition

THE field Johan Van Overtveldt chose to till sounds unpromising: the history of a single discipline at a single university. But when the discipline is economics and the place is the University of Chicago, the soil is rich indeed. Mr Van Overtveldt counts nine Nobel economics laureates “primarily associated” with Chicago, a further four who did much of their best work there and several others with Chicago connections. Nowhere else comes close. And that is without those, such as Frank Knight and Jacob Viner, who lived too early to win the profession's top prize (the laureate for economics dates only from 1969).

The Chicago School: How the University of Chicago Assembled the Thinkers Who Revolutionized Economics and Business
By Johan Van Overtveldt



Agate; 432 pages; $35

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Before defining the “Chicago school” Mr Van Overtveldt clears his throat to discuss what he calls the “Chicago tradition”. This, he says, is characterised by hard work; a belief that economics is a true science; belief in advancement by excellence alone; an often brutal debating culture; and an accident of geography. Not only is Chicago a long way from anywhere, its Hyde Park campus is trapped between Lake Michigan and some of Chicago's roughest districts. “Discussion went on and on,” recalls Deirdre McCloskey, an economics historian interviewed by the author. “It never stopped because there was literally nothing else to do.”

Within this approach to the academic life—some bits of which, to the sceptic, will sound more distinctive than others—economics at Chicago has been defined by a belief in free markets and the price mechanism. Viner used to drum this into first-year graduate students; so did Milton Friedman, the economics department's dominant figure for 30 post-war years; and then Gary Becker, another Nobel laureate unafraid of following economic reasoning to controversial ends.

The general application of orthodox theory by inquisitive and demanding minds has proved amazingly fertile—not only in the economics department but also in the university's Graduate School of Business and its law school. Viner's work on international trade, Friedman's work on monetary policy and consumption, and Mr Becker's expansion of economics beyond its conventional borders to the analysis of crime and the family, are but three examples.

Not all agree

Dissent, though, has been frequent. The Cowles Commission, a Keynesian macroeconomics unit, fought many bitter battles with the department before quitting Chicago for Yale in the 1950s. Today, in financial economics, Chicago houses not only Eugene Fama, father of the efficient-markets hypothesis, but also Richard Thaler, one of that theory's leading critics.

The book is far more than a trot through the dry record of academic papers. Recollections, in interviews with the author or from published sources, illuminate personalities, rows and controversy. There is bluntness and wit from George Stigler, another great Chicago name, and from Friedman. There is Knight, a perpetual sceptic, and the eldest of 11 children of Plymouth Brethren, who hated the clergy and doctors. And Aaron Director, Friedman's brother-in-law, gets his due weight: although he published little, he influenced many. “If we had been in Greece,” Stigler once wrote, “I'm sure I would have called him Socrates.”

The book has its flaws. Mr Van Overtveldt starts by listing five elements of the Chicago tradition; at the end he cites six, adding the centrality of price theory to his initial list and blurring the structure of his argument. An especially irritating typographical error has Friedman's “A Theory of the Consumption Function” appear in 1937 instead of 1957. And one quotation (from *The Economist*, as it happens)

appears twice within three pages. Even so, this is an admirably detailed and thoroughly welcome history of a great centre of economic thought.

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By Johan Van Overtveldt.
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Dutch portraits

The secrets behind the faces

Jun 21st 2007
From The Economist print edition

Rembrandt, Hals and their contemporaries on show in London

WILLEM VAN HEYTHUYSEN leans back in his chair looking for all the world as if he has just won several million dollars. Which in a sense he has. This small oil panel by Frans Hals (shown below) has a complex history of attribution; the curtain and book are clearly by another hand. The portrait itself is pure Hals: loosely rendered but very much alive. Yet in 2004 it was described as a copy and sold at auction in Vienna for a mere €440,000 ($546,000). Now dendrochronological analysis has helped to confirm that it was indeed painted by the master in the 1630s. The Frans Hals Museum in Haarlem is thought to be hoping to acquire it from its private owner; a London dealer has suggested that if the picture were put up for sale it could fetch around £5m ($10m).

The van Heythuysen is among the 60 or so paintings in an exhibition of Dutch portraits that opens at London's National Gallery next week and will travel to the Mauritshuis in The Hague in October. Most of the paintings are lent by museums, from Prague to Washington, DC, in particular from collections in Britain and the Netherlands. It is, says Betsy Wieseman, the curator of Dutch art at the National Gallery, the first exhibition anywhere since the early 1950s to bring together so rich a combination of Dutch portraits.

Illustrations

Van Heythuysen sets his own price

Portraiture in early 17th-century Holland came about largely by chance. Rembrandt and his contemporaries first wanted to concentrate on historical scenes. Independence from Spain, followed by an explosion in international trade, led to a new, rich middle class demanding that their images be recorded. Great painters, whose existence in Reformation Holland must be one of the most felicitous accidents in art history, were there to oblige. The result attests to a moment when humanism injected itself, irrevocably, into European civilisation.

In preparation for the show several paintings were revarnished, including Hals's sparkling double portraits of Jacob Olycan and his wife Aletta Hanemans, both of which are in the Mauritshuis collection. According to Sabrina Meloni, a restorer at the gallery, the portraits were in no shape for a grand exhibition. The varnish was “horrible” and there were problems from retouchings. “The yellowing of old varnish”, says Ms Meloni, “can diminish nuances of colour. A new varnish helps resaturate colour and brings a painting back to life. With these two, it's as if we're getting new acquisitions.”

Three of the Rembrandts on show belong to the National Gallery. Two others, including the “Anatomy Lesson of Dr Nicolaes Tulp” (1632), come from the Mauritshuis. Another Rembrandt, “The Shipbuilder and his Wife”, is lent by Queen Elizabeth. From Amsterdam's Rijksmuseum come Rembrandt's “The Syndics of the Clothmakers' Guild” (1662) and Hals's “The Meagre Company”, a huge painting, completed by Pieter Codde (the left side is where to look for Hals's own hand).

The coup of the show is destined for the Mauritshuis alone. This is Rembrandt's 1654 portrait of Jan Six, one of the richest Amsterdammers of his time whom Rembrandt probably painted to repay a loan. Six's sad face reveals a life well lived, holding a multitude of secrets. It is one of the most intimate portraits in the history of painting. It can be viewed only by special arrangement with the Six family in Amsterdam and normally never leaves their house. An exception is being made for the Mauritshuis (The Hague is less than an hour from Amsterdam). The rare chance to see this masterpiece might be worth the price of a trip to the Netherlands.

"Dutch Portraits: The Age of Rembrandt and Frans Hals" is at London's National Gallery from June 27th to September 16th. It will then be at the Mauritshuis in The Hague from October 13th to January 13th 2008.

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Kurt Waldheim

Jun 21st 2007
From The Economist print edition

Kurt Waldheim, a diplomat with a selective memory, died on June 14th, aged 88

Camera Press

ONCE, in more glorious times, the empire of Austria stretched from Prague and Cracow to Trent, below the Dolomites, and Ragusa on the Adriatic. Vienna drew the intelligentsia of Europe. Hungarian wheat fed the Austrians, and Bohemian coal kept their economy booming. Dozens of tribes and peoples clustered under the Habsburg wing, forming Europe's first and last buffer against the Turks.

This was the Austria Kurt Waldheim pined for. It was not the one he was born into. In 1918 Austria—often “she” in Mr Waldheim's writings, like an unfortunate princess in a fairy tale—was a “defeated, ruined, truncated remnant” of what she had been. The wheatfields and the coal mines had been forfeited. Moravia, South Styria and South Tyrol had been carved off too. Yet in 1919, “to add insult to injury”, Austria was obliged to pay reparations to countries ravaged by the fighting. Mr Waldheim, a man of old-fashioned gallantry, could only uphold and defend her.

Her fate was his own. He was “always hungry” as a boy, staring hopelessly at the rare cakes and biscuits he could not have, as the country was hit by periodic famine. Austria was impoverished; his family, too, had lost all their savings when the crown was devalued. “In severe psychological shock” Austria had recurrent dreams of an alliance with Germany, sometimes the rescuing hero and sometimes the overbearing, jackbooted rapist. The young Kurt, too, flirted with Hitler's Reich; but somehow, like Austria, failed to recall the details.

In 1985, preparing to run for the presidency of Austria after a distinguished career as a diplomat and ten years as secretary-general of the United Nations, he produced an autobiography, “In the Eye of the Storm”. “In the course of writing this book”, his introduction ran, “I have come to appreciate the frailty of memory.” Indeed. In 1938, after the *Anschluss* that absorbed Austria into Nazi Germany, he remembered his father being arrested by the Gestapo and himself, an intrepid member of the Austrian *Jungvolk*, distributing pamphlets urging citizens to resist and being “quite badly beaten up for it”. Journalists and researchers, who began to investigate him in 1986, found him instead in an SA horse detachment, wearing the brown shirt unabashed.

He misremembered more. In 1941, forced into the Wehrmacht as all Austrians were unless they had money or connections, he went to the Russian front; his memory told him that his unit was full of dissenters, that he read anti-Nazi pamphlets under the blankets and that when he was wounded he returned, relieved, to his law studies in Vienna. Fact, confirmed by an international commission of historians in 1988, was that by April 1942 he was back in uniform in the Balkans and that within a year he was in Army Group E, commanded by a man so brutal that he was later executed for war crimes.

“A clerk and an interpreter” was Mr Waldheim's description of his job, when confronted; too lowly to notice the long lines of Jews, a quarter of the town's population, driven out of Salonika to the death camps, or to smell the corpses of partisans strung up on makeshift gallows along the roads, or to hear—though they happened some hundred yards from his office—the summary executions of captured British commandos.

Deference and neutrality

He had not known, said Mr Waldheim. Or, if he had, to know was not a crime. Nor was it a crime to fail to defy orders, though some might wish he had. At the urging of the Austrian government, “moral guilt” was removed from the report on him. He did his duty. Like Austria, he dulled his conscience and lost his identity for the duration of the war. And after it he made himself a victim, travelling home from Vienna with his wife and baby daughter in a windowless cattle-car, “refugees”, like thousands of his fellow-countrymen.

While secretary-general of the UN from 1972-82, a post in which he hoped to “evoke the conscience of mankind”, his self-delusion went undetected. It was noticed that he showed uncommon deference to the powerful, preferring quiet diplomacy and studied neutrality, as Austria now did, to ruffling feathers; but in those years, with the world frozen into Soviet and American blocks and the UN turbulent and impotent, he had little choice. Only later, as his story began to surface under the persistent digging of *Profil* journalists and the World Jewish Congress, did it seem that he might have bowed and kissed hands just a little too much in life.

Many Austrians thought it did not matter. Defiantly, they voted for him as their president in 1986—and saw him sit for six years in the Hofburg without a state invitation, as the world turned its back on him. Ostracisation shocked both the country and the man. It also forced an examination of conscience that has not ended yet.

Mr Waldheim's last will and testament regretted “Nazi crimes”, but not his own behaviour. Moral ambiguity remained, and might even save him. “When death comes to you,” he wrote, “all the distinctions in life disappear. Good and bad, dark and light, merits and mistakes, stand now in front of a judge who knows the truth. I can go there with trust, because I know His justice and His mercy.”

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Overview

Jun 21st 2007
From The Economist print edition

Consumer prices in **America** rose by 0.7% in May, the biggest one-month rise for nearly two years. The increase was driven by higher energy costs and food prices. Core prices, which exclude food and energy, rose by just 0.1%. Stockmarkets rose on the news, as investors concluded that the rate-setters at America's central bank would put greater weight on the weaker rise in core prices.

Conditions in America's **housing market** became gloomier. Housing starts fell by 2.1% in May, leaving them 24.2% lower than a year earlier.

America's **current-account deficit** widened to $193 billion (5.7% of GDP) in the first quarter of 2007, from $188 billion (5.6% of GDP) in the last three months of 2006.

The **Bank of England** looks likely to raise the base rate to 5.75% as early as July. Minutes of the nine-strong monetary-policy committee's meeting earlier this month, when the rate was held at 5.5%, revealed that four members, including Mervyn King, the bank's governor, had backed a quarter-point increase in June. Furthermore, growth in broad money, which has been increasingly worrying the bank, picked up to 13.8% in the year to May.

Sweden's central bank raised its benchmark interest rate by a quarter-point to 3.5% on June 19th. The Riksbank thinks that the rate will need to rise to 4.0% by the end of the year to keep inflationary pressures at bay. Sweden's unemployment rate was 3.9% in May compared with 4.8% a year earlier.

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Output, prices and jobs

Jun 21st 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+1.9 Q1	+0.6	+2.0	+2.7	+1.6 May	+2.7 May	+4.2	+2.5	4.5 May
Japan	+2.6 Q1	+3.3	+2.3	+2.3	+2.2 Apr	nil Apr	–0.1	nil	3.8 Apr
China	+11.1 Q1	na	+10.3	+9.7	+18.1 May	+3.4 May	+1.4	+2.8	9.5 2006
Britain	+2.9 Q1	+2.9	+2.7	+2.5	+0.4 Apr	+2.5 May**	+2.2	+2.4	5.5 Apr††
Canada	+2.0 Q1	+3.7	+2.4	+2.7	–0.9 Mar	+2.2 May	+2.8	+2.0	6.1 May
Euro area	+3.0 Q1	+2.4	+2.6	+2.2	+2.8 Apr	+1.9 May	+2.5	+1.9	7.1 Apr
Austria	+3.5 Q1	+3.6	+2.9	+2.6	+6.8 Mar	+2.1 May	+1.7	+1.6	4.4 May
Belgium	+2.9 Q1	+2.9	+2.5	+2.3	+4.6 Apr	+1.3 May	+2.2	+1.8	10.7 May‡‡
France	+2.1 Q1	+2.4	+2.1	+2.2	+1.7 Apr	+1.1 May	+2.1	+1.4	8.2 Apr
Germany	+3.6 Q1	+2.1	+2.7	+2.3	+3.7 Apr	+1.9 May	+1.9	+1.9	9.2 May
Greece	+4.6 Q1	na	+3.3§	+3.2§	+0.2 Apr	+2.6 May	+3.1	+2.6§	9.5 Mar
Italy	+2.3 Q1	+1.1	+2.0	+1.7	+0.8 Apr	+1.6 May	+2.2	+1.9	6.2 Q1
Netherlands	+2.5 Q1	+2.3	+2.6	+2.5	+5.8 Apr	+1.8 May	+1.7	+1.7	4.6 May††
Spain	+4.1 Q1	+4.6	+3.6	+2.8	+6.5 Apr	+2.3 May	+4.1	+2.6	8.2 Apr
Czech Republic	+6.1 Q1	+6.1	+5.3	+4.9	+14.0 Apr	+2.4 May	+3.1	+2.6	6.4 May
Denmark	+1.8 Q1	+1.9	+2.2	+2.2	+1.6 Apr	+1.8 May	+2.0	+1.8	3.7 Apr
Hungary	+2.7 Q1	+2.4	+2.6	+3.1	+10.6 Apr	+8.5 May	+2.8	+6.8	7.5 Apr††
Norway	+2.8 Q1	+2.9	+2.7§	+2.4§	+6.1 Apr	+0.3 May	+2.3	+1.6§	2.7 Apr††
Poland	+7.4 Q1	na	+6.0	+5.3	+8.1 May	+2.3 May	+1.2	+2.2	13.0 May‡‡
Russia	+7.9 Q1	na	+6.7	+6.4	+6.7 May	+7.6 May	+9.5	+8.2	7.0 Apr‡‡
Sweden	+3.0 Q1	+2.6	+3.7	+3.1	+3.6 Apr	+1.7 May	+1.6	+1.7	3.9 May‡‡
Switzerland	+2.4 Q1	+3.2	+2.2	+2.1	+7.3 Q1	+0.5 May	+1.4	+0.6	2.7 May‡‡
Turkey	+5.2 Q4	na	+4.6	+5.7	+1.4 Apr	+9.2 May	+9.9	+8.3	11.4 Q1‡‡
Australia	+3.8 Q1	+6.6	+3.0	+3.2	+3.7 Q4	+2.4 Q1	+3.0	+2.5	4.2 May
Hong Kong	+5.6 Q1	+2.0	+5.3	+4.9	–1.5 Q1	+1.3 Apr	+1.9	+2.4	4.3 Apr††
India	+9.1 Q1	na	+8.1	+7.6	+13.6 Apr	+6.7 Apr	+5.0	+5.7	7.6 2006
Indonesia	+6.0 Q1	na	+6.0	+5.8	+11.9 Mar	+6.0 May	+15.6	+6.5	10.3 2005
Malaysia	+5.3 Q1	na	+5.4	+5.6	+0.4 Apr	+1.4 May	+3.9	+2.3	3.0 Q4
Pakistan	+6.6 2006§§	na	+6.9§	+6.0§	+6.8 Sep	+7.4 May	+7.1	+6.7§	na
Singapore	+6.1 Q1	+7.6	+5.5	+5.7	+18.8 Apr	+0.6 Apr	+1.1	+1.6	2.9 Q1
South Korea	+4.0 Q1	+3.6	+4.3	+4.6	+6.7 Apr	+2.3 May	+2.3	+2.2	3.4 May
Taiwan	+4.2 Q1	na	+4.2	+4.6	+2.6 Apr	nil May	+1.6	+1.3	4.0 Apr
Thailand	+4.3 Q1	+4.9	+4.0	+4.7	+6.7 Apr	+1.9 May	+6.2	+2.5	1.5 Feb
Argentina	+8.0 Q1	+4.1	+7.5	+5.7	+6.8 Apr	+8.8 May	+11.5	+9.8	9.7 Q1‡‡
Brazil	+4.3 Q1	+3.2	+3.9	+3.7	+6.0 Apr	+3.2 May	+4.2	+3.6	10.1 Apr‡‡
Chile	+5.8 Q1	na	+5.2	+5.1	+5.2 Apr	+2.9 May	+3.7	+2.6	6.8 Apr††††
Colombia	+8.0 Q4	nil	+5.4	+4.6	+15.1 Mar	+6.2 May	+4.0	+5.1	11.0 Apr‡‡
Mexico	+2.6 Q1	+0.6	+3.2	+3.8	+1.5 Apr	+3.9 May	+3.0	+3.8	3.6 Apr‡‡
Venezuela	+8.8 Q1	na	+6.6	+3.9	+6.7 Mar	+19.5 May	+10.4	+17.6	10.3 Q1‡‡
Egypt	+7.4 Q1	na	+6.3	+5.6	+10.5 2006	+10.5 May	+5.3	+9.9	9.0 Q4‡‡
Israel	+5.4 Q1	+6.3	+4.7	+4.3	+5.2 Mar	–1.3 May	+3.5	+0.9	7.7 Q1
Saudi Arabia	+3.4 2006	na	+3.9§	+5.0§	na	+2.9 Mar	+2.5	+2.7§	na
South Africa	+5.4 Q1	+4.7	+4.8	+4.9	+3.8 Apr	+7.0 Apr	+3.3	+5.4	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+9.9 Q1	+9.5	+9.4§	+5.8§	+8.0 Apr	+5.7 May	+4.7	+5.3§	4.7 Apr
Finland	+5.4 Q1	+3.4	+2.7§	+2.5§	–1.4 Apr	+2.4 May	+1.7	+1.4§	6.3 May
Iceland	–0.1 Q1	–3.6	+1.3§	+2.7§	na	+4.0 Jun	+8.0	+5.0§	1.1 May‡‡
Ireland	+5.0 Q4	+0.1	+5.0§	+3.4§	+5.8 Apr	+5.0 May	+3.9	+4.2§	4.5 May
Latvia	+10.7 Q1	na	+9.2§	+7.5§	–0.9 Apr	+8.2 May	+6.6	+7.6§	5.6 Mar
Lithuania	+8.3 Q1	+6.1	+7.0§	+6.4§	na	+4.8 May	+3.5	+1.9§	5.5 Mar
Luxembourg	+5.0 Q4	+7.0	+4.7§	+5.0§	+1.8 Mar	+1.9 May	+3.1	+2.2§	4.4 Apr‡‡
New Zealand	+2.9 Q4	+5.0	+3.1§	+3.1§	–0.4 Q4	+2.5 Q1	+3.3	+2.2§	3.8 Q1
Peru	+7.3 Apr	na	+6.7	+5.6	+7.7 Mar	+0.9 May	+2.2	+1.1	9.3 Apr‡‡
Philippines	+6.9 Q1	+10.3	+5.7	+5.8	–7.6 Mar	+2.4 May	+6.9	+3.9	7.6 Q1‡‡
Portugal	+2.1 Q1	+3.2	+1.6§	+2.1§	+3.8 Apr	+2.4 May	+3.8	+2.2	8.4 Q1‡‡
Slovakia	+8.9 Q1	na	+8.0§	+6.0§	+14.9 Apr	+2.3 May	+4.8	+2.5	10.5 Apr
Slovenia	+7.2 Q1	na	+4.6§	+4.1§	+13.1 Apr	+2.9 May	+3.2	+2.7	7.9 Apr‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.3% in May. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Jun 21st 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Jun 12th	Jun 19th*	% change on one month	% change on one year
Dollar index				
All items	201.6	203.5	–0.2	+22.7
Food	169.4	172.0	+6.7	+28.4
Industrials				
All	243.2	244.3	–5.8	+17.9
Nfa†	162.7	164.0	+0.0	+3.1
Metals	287.1	288.1	–7.4	+23.5
Sterling index				
All items	154.9	155.3	–0.9	+13.7
Euro index				
All items	140.0	140.3	+0.2	+15.1
Gold				
$ per oz	648.45	657.35	–0.6	+15.6
West Texas Intermediate				
$ per barrel	65.29	69.08	+6.4	+0.2

*Provisional †Non-food agriculturals.

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Long-term unemployment

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From The Economist print edition

When people are unemployed for a long time, their work-related skills atrophy and they find it harder to get a job. They also become less keen to search for work. As a result, they compete less for employment, which increases the bargaining power of those with jobs. That, in turn, pushes up wages and raises overall unemployment. This mechanism explains why tackling long-term joblessness matters so much. Countries like Britain, which have managed to reduce its incidence, have better-performing labour markets than those like Germany, where the share of the long-term unemployed has risen over the past decade. Policies to keep the jobless attached to the world of work can pay dividends.

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Trade, exchange rates, budget balances and interest rates

Jun 21st 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Jun 20th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−829.9 Apr	−803.4 Q1	−6.2	–	–	−1.7	5.27	5.12
Japan	+92.0 Apr	+186.9 Apr	+4.3	124	115	−4.4	0.62	1.88
China	+216.7 May	+249.9 2006	+8.1	7.62	8.00	−1.3	3.06	4.12
Britain	−158.3 Apr	−80.1 Q4	−3.1	0.50	0.54	−2.8	5.82	5.48
Canada	+46.0 Apr	+18.5 Q1	+1.2	1.06	1.11	0.9	4.35	4.63
Euro area	+8.6 Apr	+9.9 Mar	+0.1	0.75	0.79	−0.8	4.16	4.64
Austria	+0.3 Mar	+10.3 Q4	+2.4	0.75	0.79	−0.8	4.16	4.69
Belgium	+19.9 Mar	+7.8 Dec	+2.0	0.75	0.79	nil	4.21	4.70
France	−34.8 Apr	−32.3 Apr	−1.3	0.75	0.79	−2.9	4.16	4.67
Germany	+227.3 Apr	+167.7 Apr	+4.8	0.75	0.79	0.3	4.16	4.63
Greece	−45.7 Mar	−31.7 Mar	−8.4‡	0.75	0.79	−2.2	4.16	4.82
Italy	−23.1 Mar	−45.6 Mar	−2.1	0.75	0.79	−2.6	4.16	4.83
Netherlands	+43.7 Apr	+16.8 Q1	+8.2	0.75	0.79	0.6	4.16	4.67
Spain	−116.6 Mar	−113.0 Mar	−8.8	0.75	0.79	1.1	4.16	4.68
Czech Republic	+2.6 Apr	−5.7 Apr	−3.8	21.4	22.5	−4.1	2.95	4.53
Denmark	+5.2 Apr	+4.8 Apr	+2.5	5.55	5.90	3.6	4.39	4.68
Hungary	−2.1 Apr	−6.5 Q4	−4.7	185	220	−6.7	7.80	6.53
Norway	+54.1 May	+57.3 Q1	+14.9‡	5.99	6.28	18.8	4.77	5.19
Poland	−6.2 Mar	−8.8 Apr	−2.6	2.82	3.23	−2.4	4.53	5.65
Russia	+129.8 Apr	+85.8 Q1	+5.7	25.9	27.0	2.4	10.00	6.15
Sweden	+19.7 Apr	+29.8 Q1	+6.6	6.90	7.28	2.2	3.41	4.50
Switzerland	+10.5 May	+106.1 Q4	+15.7	1.24	1.24	0.3	2.54	3.04
Turkey	−53.0 Apr	−31.3 Apr	−7.0	1.30	1.67	−2.7	19.06	6.65§
Australia	−10.8 Apr	−43.8 Q1	−5.3	1.18	1.36	1.3	6.41	6.19
Hong Kong	−19.0 Apr	+20.6 Q4	+9.8	7.81	7.77	2.6	4.50	4.52
India	−61.3 Apr	−10.0 Q4	−1.8	40.8	46.0	−3.3	7.75	8.43
Indonesia	+41.5 Apr	+9.6 Q4	+2.2	8,945	9,363	−1.6	8.43	6.48§
Malaysia	+28.3 Apr	+25.6 Q4	+13.5	3.43	3.67	−3.7	3.62	5.63§
Pakistan	−13.6 May	−6.8 Q1	−5.6‡	60.6	60.3	−4.0	9.66	6.95§
Singapore	+35.0 Apr	+38.1 Q1	+23.3	1.54	1.59	0.3	2.56	2.84
South Korea	+16.6 May	+5.2 Apr	+0.2	928	956	0.5	4.87	5.44
Taiwan	+13.7 May	+28.1 Q1	+6.7	33.1	32.6	−2.3	3.50	2.48
Thailand	+7.0 Apr	+8.8 Apr	+2.1	34.6	38.4	−1.9	3.75	3.99
Argentina	+11.4 Apr	+8.1 Q4	+2.5	3.08	3.08	1.2	9.44	na
Brazil	+47.6 May	+13.6 Mar	+0.8	1.91	2.24	−2.4	11.93	6.16§
Chile	+25.5 May	+5.3 Q4	+1.3	524	546	5.5	5.40	5.50§
Colombia	−1.0 Mar	−2.9 Q4	−2.7	1,897	2,568	−0.9	7.98	6.02§
Mexico	−10.2 Apr	−5.5 Q1	−1.4	10.8	11.4	−0.2	7.18	7.64
Venezuela	+28.2 Q1	+23.8 Q1	+9.8	2,147	2,583	−4.7	10.11	6.55§
Egypt	−12.6 Q4	+2.7 Q4	+1.5	5.70	5.76	−5.5	6.73	5.64§
Israel	−7.5 May	+8.1 Q1	+3.6	4.21	4.46	−1.0	3.80	4.91
Saudi Arabia	+148.5 2006	+95.4 2006	+21.4‡	3.75	3.75	16.6	5.05	na
South Africa	−9.9 Apr	−16.3 Q4	−6.0	7.09	7.18	0.5	9.80	8.23
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.8 Mar	−2.6 Mar	−14.9‡	11.7	12.4	2.7	4.71	na
Finland	+12.3 Mar	+13.9 Apr	+5.7‡	0.75	0.79	2.5	4.11	4.68
Iceland	−1.9 Apr	−4.0 Q1	−18.7‡	62.1	74.7	1.8	13.76	na
Ireland	+35.2 Apr	−7.2 Q4	−4.1‡	0.75	0.79	0.5	4.16	4.66
Latvia	−5.8 Apr	−5.4 Apr	−20.0‡	0.52	0.55	nil	7.48	na
Lithuania	−6.0 Apr	−3.7 Apr	−10.3‡	2.57	2.73	−0.5	4.89	na
Luxembourg	−5.3 Mar	+4.4 Q4	na	0.75	0.79	0.3	4.16	na
New Zealand	−4.0 Apr	+6.2 Q4	−10.3‡	1.31	1.62	3.1	7.05	6.75
Peru	+9.0 Apr	+2.7 Q1	+1.8	3.17	3.26	0.4	4.55	na
Philippines	−3.9 Mar	+5.0 Dec	+3.6	45.9	53.2	−0.7	6.19	na
Portugal	−22.9 Mar	−17.8 Mar	−7.5‡	0.75	0.79	−3.3	4.16	4.80
Slovakia	−2.2 Apr	−3.7 Feb	−4.3‡	25.1	30.2	−2.9	4.08	4.61
Slovenia	−2.2 Apr	−1.3 Mar	−2.0‡	0.75	0.79	−1.2	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Jun 21st 2007
From The Economist print edition

Markets

	Index Jun 20th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,489.4	+0.1	+8.2	+8.2
United States (S&P 500)	1,512.8	–0.2	+6.7	+6.7
United States (NAScomp)	2,600.0	+0.7	+7.6	+7.6
Japan (Nikkei 225)	18,211.7	+2.7	+5.7	+1.9
Japan (Topix)	1,783.7	+2.2	+6.1	+2.3
China (SSEA)	4,386.0	+0.1	+55.8	+59.6
China (SSEB, $ terms)	300.1	–3.0	+125.1	+130.6
Britain (FTSE 100)	6,649.3	+1.4	+6.9	+8.8
Canada (S&P TSX)	13,978.2	+0.9	+8.3	+18.4
Euro area (FTSE Euro 100)	1,426.7	+3.2	+11.6	+13.5
Euro area (DJ STOXX 50)	4,545.6	+3.3	+10.3	+12.3
Austria (ATX)	4,956.3	+3.5	+11.0	+13.0
Belgium (Bel 20)	4,676.9	+2.3	+6.6	+8.4
France (CAC 40)	6,093.3	+2.7	+10.0	+11.9
Germany (DAX)*	8,090.5	+5.3	+22.6	+24.8
Greece (Athex Comp)	4,898.9	+1.7	+11.5	+13.4
Italy (S&P/MIB)	42,769.0	+2.0	+3.2	+5.0
Netherlands (AEX)	552.1	+2.9	+11.5	+13.4
Spain (Madrid SE)	1,657.5	+1.4	+6.6	+8.5
Czech Republic (PX)	1,850.5	+0.4	+16.5	+13.8
Denmark (OMXCB)	470.7	+2.0	+11.0	+13.1
Hungary (BUX)	26,762.2	+1.0	+7.7	+11.1
Norway (OSEAX)	581.9	+5.3	+15.8	+20.4
Poland (WIG)	64,940.2	+1.8	+28.8	+32.8
Russia (RTS, $ terms)	1,915.4	+6.0	–1.8	–0.3
Sweden (Aff.Gen)	408.0	+2.4	+11.7	+10.7
Switzerland (SMI)	9,347.3	+2.2	+6.4	+4.9
Turkey (ISE)	46,251.2	+3.6	+18.2	+28.9
Australia (All Ord.)	6,421.0	+3.4	+13.8	+21.6
Hong Kong (Hang Seng)	21,684.7	+5.4	+8.6	+8.1
India (BSE)	14,412.0	+2.9	+4.5	+13.5
Indonesia (JSX)	2,161.1	+3.5	+19.7	+20.3
Malaysia (KLSE)	1,386.3	+2.5	+26.5	+30.1
Pakistan (KSE)	13,556.7	+0.6	+35.0	+35.7
Singapore (STI)	3,628.7	+2.2	+21.5	+21.4
South Korea (KOSPI)	1,783.8	+3.6	+24.4	+24.7
Taiwan (TWI)	8,755.9	+4.9	+11.9	+10.3
Thailand (SET)	777.1	+7.0	+14.3	+19.5
Argentina (MERV)	2,226.0	+2.7	+6.5	+6.1
Brazil (BVSP)	54,029.0	+2.0	+21.5	+35.9
Chile (IGPA)	14,667.8	+1.1	+18.5	+20.5
Colombia (IGBC)	10,586.4	+1.3	–5.1	+12.0
Mexico (IPC)	31,550.8	–1.0	+19.3	+20.1
Venezuela (IBC)	39,526.1	+3.3	–24.3	+17.8
Egypt (Hermes)	70,952.6	+4.1	+15.8	+16.1
Israel (TA-100)	1,115.9	+2.6	+21.1	+21.4
Saudi Arabia (Tadawul)	7,022.1	–0.7	–11.5	–11.5
South Africa (JSE AS)	29,510.4	+3.2	+18.4	+17.8
Europe (FTSEurofirst 300)	1,620.2	+2.5	+9.2	+11.1
World, dev'd (MSCI)	1,611.2	+1.4	+8.6	+8.6
Emerging markets (MSCI)	1,064.3	+4.8	+16.6	+16.6
World, all (MSCI)	402.0	+1.7	+9.3	+9.3
World bonds (Citigroup)	650.6	+0.4	–1.2	–1.2
EMBI+ (JPMorgan)	413.0	+1.3	+1.4	+1.4
Hedge funds (HFRX)	1,363.5	+0.7	+6.9	+6.9
Volatility, US (VIX)	14.7	14.7	11.6	(levels)
CDSs, Eur (iTRAXX)†	17.2	–0.2	–19.4	–18.0
CDSs, N Am (CDX)†	31.9	+1.6	+8.7	+8.7
Carbon trading (EU ETS) €	0.10	–41.2	–98.4	–98.4

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EFX; HKMA; Markit; Standard Bank

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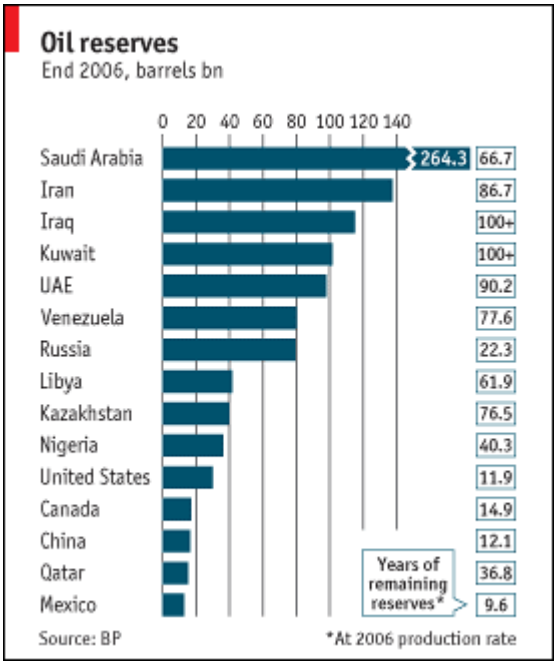
Oil reserves

Jun 21st 2007
From The Economist print edition



Almost three-quarters of the world's 1.2 trillion barrels of proven oil reserves—those that can be recovered from known oil fields using existing technology—are located in just seven countries, according to BP. Saudi Arabia's share at the end of last year was more than a fifth of the total. Iran, Iraq, Kuwait and the United Arab Emirates together accounted for over a third. Venezuela and Russia also have big reserves. If last year's production rates were sustained, global oil reserves would run out in just over 40 years' time. America and China would have little over a decade of oil production left before their reserves were exhausted. By contrast, Kuwait's oil fields would last for more than a century.

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